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THE MAGAZINE OF WALL STREET

and BUSINESS ANALYST

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With The Editors

A Realizable Asset

THOSE of our staff who are responsible for getting together the figures in the Business Analyst section lead harried lives. The sheer volume of source-checking that must go on for each issue would be enough to dismay a Government income tax accountant, and it almost always happens that one late figure holds up the entire section just at the hour when everything should be clicking into place. Crop reports which are released about four o'clock in the afternoon are among the chronic offenders near press time. Confidentially, and this isn't intended for the ears of the people we're talking about, they do a splendid job on the blue section. If any readers are skipping those figures as dull or stale they are making a mistake.

Take the eight lines devoted to copper. Right there is the whole picture of what has been happening in a metal which frequently gives the clue to future industrial activity. Production, deliveries and stocks all make fine comparisons with a year ago, and last year's figures are there for you to see for yourself. Turn back a page to the automobile section. We all know that production is up, but did you realize the gains were so large? The figures on railroad earnings may also be a surprise, if you haven't kept up with them in each issue.

A good many investors, particularly those who try for the shorter turns, prefer to judge prospects by market action rather than by the statistics of industry. Even they cannot afford to ignore the blue section, though, because it will give them some highly pertinent and practical information on what is actually happening inside the market. The breakdown of the 316-stock Index into 43 separate groups supplies the only substitute for hunching over a ticker all day or laboriously combing through quotations to get the feel of price trends. Any readers who have a leaning toward study of the market should make group action their number one subject and should keep charts on at least the more important groups.

Again on condition that it won't be mentioned to the men who make up the Business Analyst, we might tell a story on ourselves which will explain why the subject is in our minds. A typical office argument on the position of the farmer—what he gets from the Government, the prices he pays for his needs, and so forth—recently threatened to get out of hand. After a half-hour of fumbling among Department of Agriculture reports and other statistics the actual state of affairs began to emerge from the haze. Then it was gently pointed out by an intruder that the whole situation is given in six or seven lines of the Business Analyst. So we decided that as fellow-sinners we could talk turkey to the readers who may not even realize what the blue section has that they need.

*** COMING FEATURES OF IMPORTANCE ***

Appraisal and Special Dividend Forecast
For All Leading Stocks (Part I in This Issue)

Part II, August 12 Issue—Motors and Accessories, Steels, Movies, Foods, Liquor, Tires, Tobacco, Chemicals

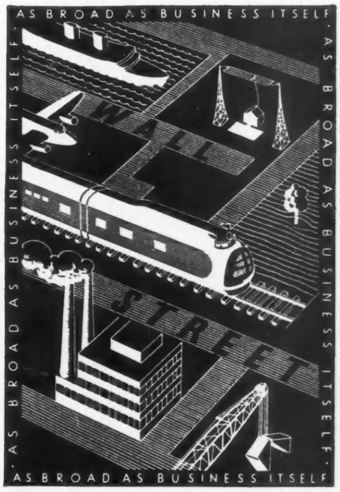
Part III, August 26 Issue—Metals, Oils, Building, Merchandising and Misc.

Charles Phelps Cushing Photo.

Miscellaneous car loadings have been showing contra-seasonal gains and "all other" car loadings are at the highest level in four months. This speaks well for the trend of business, but the increase in rail earnings is being held down by substantially increased maintenance expenditures. See opposite page and also analysis of the railroad outlook in the Dividend Forecast section.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* : Laurence Stern, *Managing Editor*



Questions of the Day

To what extent is our economy dependent on consumer goods and is this type of demand broad enough to support a complete economic recovery?

An illuminating break-down of our economy is provided by the following estimates of 1938 dollar volume made by Simon Kuznets for the National Bureau of Economic Research—Flow of perishable commodities $25,502,000,000; semi-durable commodities, $8,992,000,000; consumers' durable commodities, $5,410,000,000; producers' durable commodities, $5,164,000,000; residential construction, $1,746,000,000; business construction, $1,952,000,000; public construction, $3,455,000,000. Volume of consumer goods of all types greatly exceeds volume of capital goods but this has always been true. Capital goods are the tools for production of consumer goods and services. When our economy is functioning at full efficiency all of its main divisions complement each other. Rising demand for consumer goods creates demand for producer goods, while employment and income created by activity in producer goods further stimulates consumer purchasing power. As calculated by the Federal Reserve Bank of New York, volume of consumers' durable goods in 1938 was only 46 per cent of normal, consumers' non-durable goods 90 per cent and producers' goods 70 per cent. In the best recent year, 1937, the Simon Kuznets estimates show that volume of consumers' durable goods was 21.6 per cent under 1929, allowing for both population growth and price change, while volume of producers' durable goods was only 4.8 per cent under 1929. These figures challenge the New Deal "purchasing power" theory, showing that both in 1937 and 1938 consumer demand for durable goods was relatively more depressed than demand for producer goods. Demand for perishable goods, chiefly necessities of life, is naturally largely static and even though it is $25,000,000,000 or more a year it can never bring prosperity. In the order named, our chief economic deficiencies appear to be in construction, consumers' durable goods and producer goods. Consumer purchasing power created by the Government's deficit spending policy can never close this gap by itself.

Is not the record breaking inflation of high grade bond prices a danger signal for the stock market?

There is only potential danger, rather than present danger, in the remarkably high level of gilt-edged bonds. As long as good bonds are at a high and rising level the basic implications are bullish on sound, dividend-paying common stocks. A serious decline in such bonds would, of course, unsettle the stock market. The pertinent question, then, is when and under what conditions will the bull market founded on Government bonds terminate? The answer is given, more fully than it can be presented here, in a special article on page 385.

Business, Financial *and* Investment Counselors · 1907 — *"Over Thirty-One Years of Service"* — 1939

Are improved railroad earnings of more than temporary significance and, if so, can the roads work out their own problems without major Government help?

The most encouraging point in the current trend toward better rail earnings is that it has stubbornly continued through several periods of doubt as to the general business outlook. What began as a bulge and might have ended in short order has now pretty well proved its right to the more dignified "trend" appellation. The results apparent in the figures for all Class 1 roads tell only part of the story, since they are handicapped by the inclusion of some lines which would not be expected to show much in the way of earning power until the recovery has gone a good deal further. Comparisons with a year earlier will soon set a stiffer test as the improvement of late 1938 comes into the picture, but there is small doubt that with the seasonal uptrend now setting in, both carloadings and earnings will soon be in new high ground for the recovery. This is the best possible solution for rail problems. Individual carriers will still need some help with their specific difficulties and the whole industry could profit from a better Governmental attitude toward labor and competitive conditions; nevertheless, no help from Washington could be as important or as effective as the gains in carloadings covering practically the whole country.

The Trend of Events

STRUGGLE FOR POWER . . . The attitude of Congress —"liberal" on spending but increasingly "conservative" in the matter of delegating power to the Administration —will baffle the casual observer unless the historical background is understood. The Constitution's admirable division of governing powers between the legislative, executive and judicial branches of the Federal establishment has served us well but the border lines—particularly between executive and legislative powers—have never been static. Of necessity Congress over the years has delegated more and more power to executive and quasi-judicial agencies; strong-willed Presidents, elected in time of stress, have usually over-shadowed the legislative branch; the pendulum of power has always swung back in time at least part way to Congress.

Backed by a tremendous popular majority, President Roosevelt was granted unprecedented powers in his first term. In his second term Congress began to reassert its independence. It blocked Mr. Roosevelt on the Supreme Court and Reorganization bills. At the start of the 1939 session it put its foot down on any further delegations of power. Toward the end of the session it showed increasing determination to take back or circumscribe existing executive powers. Such is the political significance of the curb put on T. V. A.; of the Hatch bill's severe limitation of political activities by Federal jobholders; of the House vote to investigate the Labor Board; and of the Walter-Logan bill—adopted by the Senate and waiting action by the House—which for the first time in our history would effectively regulate the regulatory administrative agencies. If the latter bill becomes law, together with the Hatch bill, it will take us far back to the conception of government by law rather than by men. Ironically, both of these vitally significant measures of political reform have been bitterly fought by a "reform" Administration which professes to have elevated our "moral climate."

On the new lending-spending bill Congress probably will "go along" in large measure, for its political need for more pump-priming coincides with that of the Administration, but that will not change the picture. The struggle for power here will not be on the issue of whether the Government's indirect debt should be increased but on how much money should be authorized and on who will control its distribution. Its recent triumphs suggest Congress will win again.

THE COMMODITY TREND . . . Commodity markets have made headlines in recent sessions with the trend in several farm products so decisively downward that even talk of war crises was unable to check it more than temporarily. The break in wheat was particularly spectacular in going to a new low in Liverpool since 1592. On July 20th new five year lows were made by futures in corn, lard, hogs and cottonseed oil. The failure of various expedients to raise the prices of agricultural products is thus made very clear. Other raw materials, on the other hand, have remained firm or advanced slightly in response to a better outlook for business and generally favorable supply situations.

One of the most thorough studies of long-term commodity price trends ever undertaken came to the conclusion that the broad movement must continue gradually downward. Methods of production are constantly being improved and the sources of supply broadened. If there is any connection between production costs and price, as there must be over an extended period, then rallies of a month or a year in most commodities must be considered as such, and not mistaken for a reversal of the secular trend. Materials like copper or pig iron will continue to fluctuate in response to demand as they do today, but cannot be expected to hold any large gains through a business slump. All this has a bearing on business and profits, not at all bearish in long-run implications, while the current tendency of industrial commodities to hold or advance in the face of weakness elsewhere is encouraging as to the immediate future.

As I See It!

BY CHARLES BENEDICT

PAYING THE PRICE

As a result of "Munich," England is in the position of having to meet greater and ever increasing demands, while each time she submits to blackmail she strengthens the hands of her opponents.

The recent diplomatic victory by Japan was a natural consequence of the low estate to which British prestige has fallen in the Far East. The fumbling and hesitating policy Mr. Chamberlain has been pursuing with Germany over Poland indicated to the Japanese that another Munich was in the offing in Europe.

In spite of firm words and evidence of increasing rearmament, Chamberlain's failure to include Churchill in his Cabinet showed great weakness of purpose and crystallized the opinion as to his true position. It has not been forgotten that last October Hitler took it upon himself to strictly forbid the inclusion of either Churchill or Eden in the British Government.

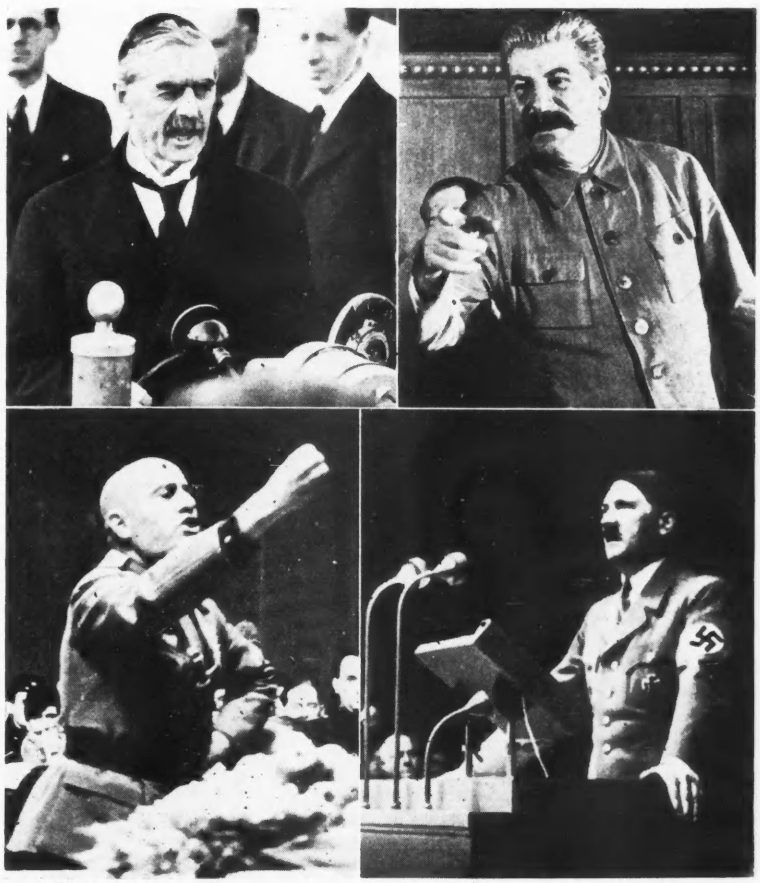
How weak are the English—that Chamberlain pursues an appeasement policy that is bankrupt and which has been a tragic failure for the British Empire as well as for those small nations who rely upon her for support and help! For, in spite of this the "appeasers"—Chamberlain; Sir John Simon, who appeased Japan when she invaded Manchuria; and Sir Samuel Hoare, appeaser of Italy over Ethiopia—still run the British Government.

Certainly this latest backdown in Asia will not help England with the small nations in Europe where the foreign policy of Chamberlain has continued to be a question mark since Czechoslovakia. Nor will it help her in Egypt or India where only a show of firmness held rebellion in check over that vast territory for generations.

Again, British delay in consummating the treaty with Russia also indicates weakness because Russia and England have great interest in joining their forces against Japan. Then, too, there was evidence that the Anglo-Russian talks dealt mainly with the Far East, and that the discussion about guaranteeing the independence of the States around the Baltic centered around Russian demand for assurance that England would do her share in the West while Russia was doing her part in the East.

Events seemed to indicate that a stalemate had not been reached, but that the announcement of an agreement had not been made purely as a matter of policy; while the recent firmness with which the Russians have attacked Manchukuo following the Japanese demands on England, seemed designed to hold the Japs in check and stiffen the backbone of the British Ambassador.

The appeasement which followed apparently has so disheartened Russia that she has again announced the resumption of trade parleys with Germany. If this should result in an economic and political agreement, England will have lost her last chance to stop Germany.



Wide World Photos

"The Battle of Words"

How Far Can This Market Go?

In our opinion the trend is up but the market remains highly sensitive to foreign news developments. Selective purchase of industrials is recommended, with stop-loss protection at prices equivalent to 140, Dow-Jones.

BY A. T. MILLER

In our last analysis, written on the morning of July 10 in an atmosphere of widespread skepticism and continuing distrust of the European potentialities, we observed that a decisive market change was certain to develop fairly soon out of the tight technical corner then existing, and that we felt the potentialities for surprise and for wide movement were greatest on the upside.

Naturally we are gratified by the upward pattern marked out over the past fortnight. Both the industrial and rail averages have topped their preceding rally highs —made respectively on June 10 and May 31—by decisive margins and with a convincing show of volume.

The trend being up, the question now for those not in stocks—as well as for those having stocks to sell—is what to do about it. How far can the advance be reasonably expected to carry? What is its technical character likely to be?

So far the performance differs in important technical respects from the straight-line advance that developed out of a somewhat similar setting in June of last year. On that occasion the advance began with an instantaneous rush and in six consecutive trading sessions, without any recession in closing averages, lifted the industrial average more than 18 points or by approximately 16 per cent. It took the next thirty-five trading sessions to add another 10 per cent by August 6, after which began the slide culminating in the Munich crisis.

In contrast, the present advance sneaked out of a narrow trading shelf in two sessions of fractional upturn before gathering any dynamic strength; periods of fast movement have been limited to one or two sessions at a time and each such period has been promptly followed either by minor recession or several days of sidewise drift; and net advance of approximately 9 per cent in the industrial average has been spread over twelve trading days as this is written.

This type of advance tends to preserve the market's technical health and thus precludes serious reaction until prices reach a level which over-discounts business earnings and prospects, or until bad news brings a recurrence of caution and fear. On domestic economic and political factors, we think a substantially higher level of values is justified; and, if European tension remains for a while in its present reduced status, we doubt that more than temporary resistance will be encountered under the 118-120 range of our daily industrial index, equivalent to 150-153 Dow-Jones.

It is conceivable to us that some time within the remaining five months of 1939 this market can top the bull market high of last November. This would be just another double-cross of the speculative concensus formulated during the first half of the year. At the start of 1939 the concensus was optimistic for the first half, doubtful or pessimistic for the second half. The duration of business reaction from the high of December and the severity of the market declines in January and in March-April constituted a rather thorough double-cross. During the second quarter a concensus was built up that the market could not get anywhere because of the probable European crisis late this summer.

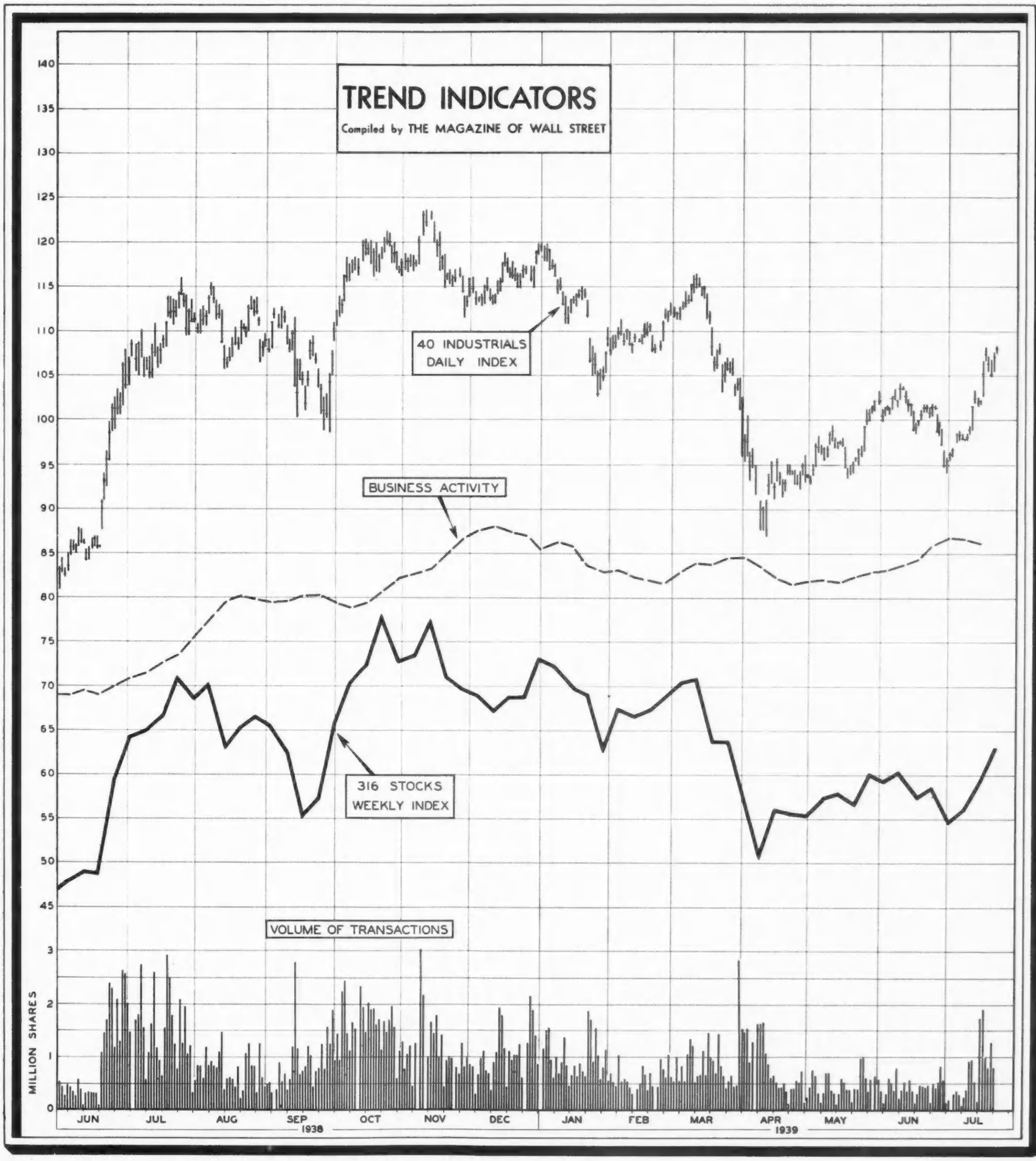
Of course, it is still possible that another frightening situation will arise in Europe, despite the "peace and appeasement" talk now commanding widespread attention in the press. It is also *possible*—now that Dow Theory followers and other believers in mechanistic gadgets have accepted recent action as signalling a "new" bull market—that the market can falter and react without any startling bad news from Europe.

There are several alternative decisions that can be intelligently arrived at by the potential buyer of stocks. He can elect to sit on the fence until he is convinced there will be no European war or major crisis this year—in which case he may not get the assurance he wants until autumn or even later and meanwhile he faces the possibility that cumulative lessening of European fears and increasing speculative enthusiasm may convert what has thus far been a relatively healthy advance into a disorderly scramble for stocks. Or he can elect to buy stocks with willingness to carry them through any decline which adverse foreign news might induce. Or, thirdly, he can decide to buy now but with reasonably close stop-loss protection against the contingency that

reaction could development out of a turn for the worse in the present European outlook or, for that matter, out of disappointment relating to the near term domestic business trend. The latter alternative appeals to us, for, in what is still a less than 100 per cent bullish picture either for Europe or for sustained American recovery, an essentially speculative technique may well be the most conservative approach even for buyers who regard themselves as investors.

As shown by our seasonally adjusted index, the rise in business has flattened out over the past fortnight at a level only slightly under the average of last December. We rather doubt that significant additional gains are likely over the near term, but the trend of new orders for both consumer goods and capital goods remains favorable and we believe there is a better than even chance that the backlog of orders now being built up will carry industrial production in the fourth quarter above the highest level reached last year.

Meanwhile the second quarter corporate earnings statements now coming to hand make an even better showing than had been expected—the first 100 industrial reports making a gain of 89.6 per cent over the second quarter of last year and topping the first quarter of this year by 9.1 per cent. Excellent profit margins exhibited by the majority of these statements reflect close control of costs and favorable spread between prices of finished goods and prices of raw materials. —Monday, July 24.



Happening in Washington

SPECIAL POLITICAL FORECAST

BY E. K. T.

With a rebellious Congress heading for home soon, President Roosevelt is making plans for a swing around the country to scout the political situation and outline the issues for the 1940 campaign. He will be met by cheering crowds and entertained by local political leaders who will tell him what he wants to hear—that the country is strong for him and for the principles of the New Deal. These principles he will defend in a series of speeches which will pretty well point the main features of the next Democratic platform. And with Congress not sharing the publicity spotlight this trip will do much to increase his prestige.

This prestige can stand some burnishing to remove the scars of recent clashes with the legislative branch, clashes of the sort every President has had but which are of special significance because of their bearing on coming political events. Blocs in Congress are bent on destroying Mr. Roosevelt's influence and eminence so that he personally will be less of an issue in 1940. Republicans naturally want to show the New Deal machine as torn, worn and stalemated; and many Democrats have joined with them to keep control of the party in Congress, which they feel is closer to the people than the President, and to prevent him from running for a third term or dictating his successor. There have been no bitter show-downs, like the Supreme Court and executive reorganization issues of the last Congress, but a whole series of relatively minor rebuffs ranging from the pigeon-holing of pet bills to rejection of nominees. These add up to a considerable diminution of the one-time omnipotence of the Chief Executive, with the result that it is getting under his hide and New Dealers are losing their morale. Most serious set-back was shelving the neutrality bill, but his pride was hurt on the temporary defeat of the monetary bill and the cold reception given his lending-spending program.

On several occasions the President has wanted to strike back vigorously, and his intimates have restrained him with difficulty, but this means only that his resentment is stored up and he will turn it loose whenever he thinks he can make it into political capital. The relative absence of Presidential tirades against big business, reactionaries, and other real and fancied enemies of the F D R brand of social progress is deceiving. It might mean that he has quit crusading and that if business recovery continues moderately he will let things drift and attempt to bring about an era of good feeling which he muffed once. But those who know Mr. Roosevelt can't believe it. He has not changed; he is simply biding his time, saving his thunder for the hustings instead of wasting it on a group of willful men in Congress.

The third-term chances of the President might be weakened by his obvious loss of control of Congress, but he doesn't see it that way, believing firmly that the voters are with him. His decision on a third term race will depend entirely on his own estimate of the strength of the anti-third term tradition and his ability to find a satisfactory successor. He would love to seek another mandate from the electorate on the issue of continued liberalism versus surrender to the interests as only he can dramatize it.

But whether Roosevelt is a candidate or not, one of the big issues in '40 will be executive domination of Congress, or representative government versus dictatorship, or the classic doctrine of separation of powers—however you want to state it. The President, of course, pooh-poohs this as an issue, considering his administration the epitome of democracy and his voice the voice of the people.

The current fight over revision of the neutrality law points very definitely to foreign policy as a big campaign issue. Republicans are preparing to promise to keep America out of foreign entanglements and charge the President with setting the stage for our participation in another European war. Just how far Mr. Roosevelt will go in pledging U. S. support to the anti-dictator countries remains to be seen from his western speeches. Also, events in Europe during the next 12 months may alter the issue completely. As the situation stands now, Republicans are hoping Mr. Roosevelt will push himself into the position Wilson took in his disastrous League of Nations campaign and they can again clean up on the isolationist issue. The so-called neutrality bill can hardly be dramatized as well as the League of

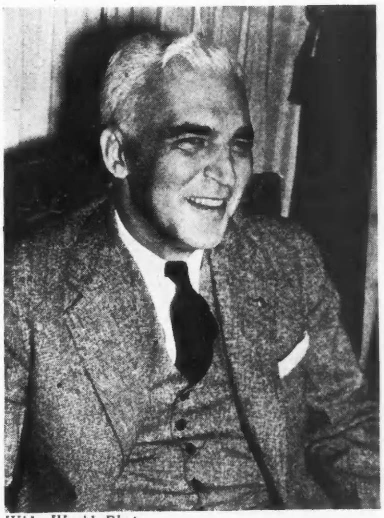
Nations and Roosevelt, who went through that campaign, has presumably learned something from Wilson's failure, but foreign policy will be a major issue.

Regardless of what happens to details of the "self-liquidating projects act of 1939" before adjournment, government spending policies will loom large in the campaign. Republicans haven't done so well in resisting appropriations for pressure groups, but they are willing to tackle Roosevelt's theory that federal spending is investment, is necessary to compensate for decreased private spending, and will raise the national income. They will contend that as soon as the government quits doling out borrowed money and stops unpredictable social experiments private investment will be forthcoming far beyond anything the government could spend.

The President's many defeats at the hands of Congress—and they have been many this session though some have not been played up much—have caused him to change somewhat his technique in dealing with the legislators, but they have not weakened his conviction that he knows better than Congress what the voters want, that his program is the best, and that his policies will be vindicated at the polls. Visitors say his chin sticks out more than ever.

CAPITAL BRIEFS

McNutt appointment as Federal Security Administrator is the biggest political news of the year, despite Roosevelt's denial that politics entered consideration. There are many theories: that he is being bottled up to stop his Presidential campaign; that he is being put on the same basis as other potential candidates holding Federal office; that he is being tried out to see if he is worthy of New Deal support; that Roosevelt has picked him as his successor. There is basis for any of these theories—or for all of them at once. McNutt's availability has not been lessened and he will be close to the publicity spotlight, but while friends may continue his campaign he can't take part in it nor stir up any issue displeasing to his chief. Best guess is that Roosevelt wants to keep him on ice, fresh but not too hot, as a potential candidate if his work pleases the New Dealers and Roosevelt does not run again. New Dealers don't consider McNutt one of them but are willing to take a chance on him (with their fingers crossed) and some of them feel the need of help from an experienced administrator and practical politician. The appointment also can be interpreted as a slap at Farley, who never liked the white-haired Hoosier.



Wide World Photo

Paul V. McNutt—his political star momentarily bright.

Spending-lending program, derisively nicknamed splending, is not arousing much enthusiasm. The heavy spending and pork-barrel advocates want grants and handouts rather than loans, while opponents point out it is another delegation of authority by Congress, gets around budget limitations, and is a big step to state capitalism. This latter is frankly desired by many New Dealers who use as an excuse the claim that private capitalism has petered out and must be replaced. New Deal concept of "self-liquidating" projects is shown by the fact that many loans will be repaid out of local taxes if at all, and the provision that Congress reimburse R F C annually for all losses. Hidden in the bill are many provisions removing existing restrictions on several spending agencies, with Rural Electrification one of chief beneficiaries.

Relief act's restrictions will curtail use of W P A for heavy construction projects, spurring drive for renewal of P W A loan and grant system for which Ickes insidiously lobbied by telling every Congressman what his district would get out of a new program. There is a growing demand to separate relief from public works, and a new P W A program would go far in appeasing building trades unions over elimination of prevailing wage on relief jobs.

Export embargo on oil, metals and other war materials to Japan is being pushed hard in Congress but with little chance of enactment. State Department fears retaliation, and some way must be found around existing treaties before an embargo would be legal. Also the Administration wants the embargo power delegated to the President along with neutrality revision.

Chain store tax advocates are planning big war chest for nation-wide campaign next winter to force Patman bill through Congress, but appear to be up against big odds. Hearings have been promised next session but there is little chance for passage of such a drastic measure which would practically outlaw interstate chains.

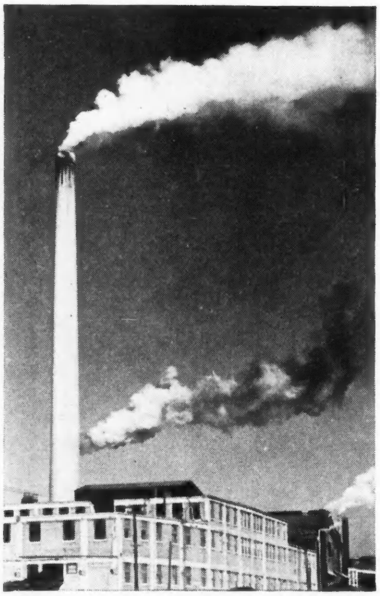
Chicago milk decision holding that anti-trust laws don't apply to an industry subject to partial control by Federal agency is big blow to Thurman Arnold's trust busting campaign, but an unexpected boost for those who want trust laws revised to substitute government regulation or self-regulation under government sanction. Rumors that Arnold will quit in few months are renewed and seemingly authoritative.

T N E C recommendations for putting teeth in the anti-trust laws cover subjects (*Please turn to page* 418)

Industries With Best Profit Outlook

The Winners and Losers on Varying Commodity Price Trends

BY JOHN D. C. WELDON



Gendreau

PREOCCUPATION with prices in a free economy is dangerous when carried to the point of interference or manipulation. But short of that, interest in the subject is both natural and desirable. For in the ideal economy, the price trend, reflecting the sum total of supply and demand as impersonally gauged by the open market, regulates the production and distribution of goods and bears importantly on the level of general business activity.

Not that industry and commerce cannot prosper in the absence of rising commodity markets—the course of prices was irregularly downward in 1928 and 1929, the best business years in our history. But, to take another view of the matter, business seldom remains long in the doldrums once a well defined uptrend in commodities has gotten under way. Hence the interest of business men and corporate managers in the matter of price movements and hence, also, the importance of the subject to investors.

But the problem of prices and their economic significance is not one that can be solved or even understood by following the fluctuations of a single index which may, and usually does, conceal divergent movements among its components. Again, the relationship between the principal *kinds* of prices is fully as important as the general level of *all* prices.

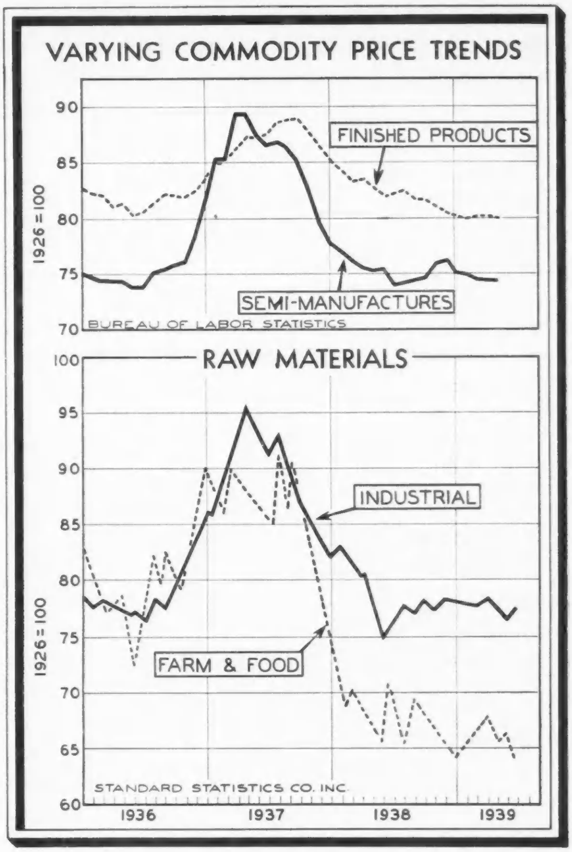
The individual business man or corporate enterprise usually thinks of prices as falling into one or the other of two main categories, i.e., those which determine costs and those which determine revenues. Thus, when there is an overly rapid rise characterized by greater percentage gains in raw materials than in semi-manufactures and, similarly, greater percentage gains in semi-manufactures than in finished goods, there follows a squeeze in profit margins of varying severity according to the proximity of the manufacturer to the ultimate consumer. It was precisely this that happened in late 1936 and early 1937 though in that instance the situation was greatly aggravated by a steep rise in the price of labor (reflected in a sharp increase in labor costs per unit of output), by a small and temporary rise in the price of both long and short term capital (i.e. interest rates) and by the impact of a new Federal tax on payrolls. All of which tends to indicate that a too rapid advance in commodities, especially when attended by distorted relationships between the principal kinds of prices, as usually happens, or when accompanied by other cost-price maladjustments, is apt to be as deleterious in its ultimate effect on business (even though momentarily stimulating) as a too rapid decline. Probably the ideal situation is that of gradually but definitely rising prices with forward buying held short of anything approaching out and out inventory speculation.

With this as a background, let's have a look at the current picture. As is apparent from the indices plotted in the accompanying chart, the general level of commodities is now about what it was just prior to the 1936-37 hump and subsequent nosedive. The latter part of 1938 saw a modest recovery in semi-manufactures, since pretty well retraced, and a small advance in industrial raw materials the greater part of which has been retained thanks to recent minor gains. On the other hand, finished products and farm and food lines have enjoyed no net recovery whatsoever; farm and food products, in fact, are now well below mid-1936 levels in

sharp contrast with the situation in industrial raw materials.

That finished products have not yet turned upward, as have semi-manufactures and industrial raw materials, is by no means grounds for pessimism for such is the pattern that typically prevails at important cyclical turning points. Prices of raw and semi-processed goods, it will be seen from the chart, made top in 1937 about six months ahead of finished products. Similar time leads, varying from one to seven months, occurred in the cyclical upturns of 1933 and 1921 and in both upturns and downturns of the slump-recovery periods 1923-24 and 1926-27. The current spread between raw materials and finished products is generally favorable and so long as the advance in the former remains gradual there will be no threat to profit margins on this score.

There are, of course, some exceptions; among specific industries, steel is a case in point. Selling prices, especially of flat rolled products, have recently been demoralized and even at the present time the steel price structure is a bit wobbly though it probably will not be subjected to another important test until the automobile makers again come into the market in good volume some months hence. Steel scrap, on the other hand, has been moderately strong of late while coke continues firm. Here, then, is an instance where the spread between prices which determine costs and those which determine revenues is quite obviously unfavorable. Unfortunately, due to excess sheet and strip capacity built up over a period of a decade and a half, it is doubtful if a satisfactory common share earnings will be restored by anything short of a very substantial further recovery in the consumers' durable goods industries or an even greater recovery in the capital goods industries.



Copper and Steel

The situation in copper presents an interesting contrast to that in steel. Domestic red metal quotations rose steadily from less than 9 cents a pound in June, 1938, to 11¼ cents in November and remained at that level until March of this year. Subsequent weakness caried the price back to 10 cents but, to the accompaniment of heavy buying in recent weeks as well as strength in the export market, copper has been advanced ¼ cent and further markups in the relatively near future would not be at all surprising. The industry's statistical position has shown marked improvement of late and it is expected that June figures, when released, will indicate an excess of shipments over production for the first time since last October. Earnings response of the industry's principal units to higher copper prices usually involves some time lag while previously placed orders are filled, but better third and fourth quarter results, especially if additional price increases are forthcoming, appear pretty definitely indicated.

As to other domestically produced non-ferrous metals, the picture is less clear cut. Two recent advances in lead, lifting quotations to 4.85 cents a pound, more or less parallel the situation in copper. Zinc, however, remains unchanged at 4.50 cents, about midway between the high and low levels of the past eighteen months. Only a relatively small portion of the sharp 1937-38 increase in refinery stocks had been moved by the beginning of 1939 and the total has since been rising mainly as a result of the tariff reduction earlier this year and in spite of low domestic prices.

Sentiment in the oil industry, particularly among integrated companies and refiners as opposed to units engaged solely in the production of crude oil, took a turn for the better in June when a nationwide increase of ½ cent a gallon was effected in gasoline prices. However, developments since the beginning of July have not altogether borne out earlier prospects for the price advances have not been fully maintained despite the fact that consumption this year will probably set a new all time record. Similarly, kerosene, distillate and gas oil, which last May closed the main consuming season in a strong position, are currently weak in most areas even though oil burner sales are such as to suggest an excellent demand for furnace oils this fall. Though crude oil stocks are not out of line, well production is at unwarranted levels as are refinery crude runs. Crude prices have remained unchanged since the markdown of last October. But since maintained earnings for the crude producers over the remainder of the year would require maintained output, and because maintained output, already too high, might well bring lower crude quotations, prospects for this sector of the industry remain mediocre. Refiners and integrated companies seem likely to extend last quarter's earnings gains modestly in the current period to the extent that at least a portion of the advance in gasoline holds at current high sales levels. (*Please turn to page* 418)

After Nine Years of Federal Deficits the Fundamental Recovery Problem Is Still Unsolved

What's the Answer?

BY HENRY L. BLACKBURN

RECENTLY *Mr. William Spelvin, a fairly representative citizen, checked over his family finances with Mrs. Spelvin. He noted that over the past seven years his income had averaged* $4,330 *a year but that he had spent an average of* $7,261 *a year, thus going into the hole an average of* $2,930 *a year. "We're doing fine, honey," said Spelvin to the little woman. "We only owe the bank* $20,514 *and at this rate we'll have our income up to* $8,000 *a year before long."*

As nearly as the writer can interpret the complexities of political bookkeeping, this is an accurate and simplified picture—expressed in thousands rather than billions—of the way the United States Government has handled its financial affairs for the fiscal years 1933 to 1939 inclusive.

Spelvin can't keep it up, of course, and neither can Uncle Sam. In fact, Spelvin's financial record is a figment of our imagination. He might have got away with it for a year, maybe two years—after which the bank would have said nix and politely advised him to have his head examined. But the bank can't very well say nix to Uncle Sam. So the bank and Sam go on exchanging pieces of paper, whereby Sam gets money to spend—considerably in excess of his tax income—and the bank gets bonds to store away in its vaults. Everybody takes it for granted that this is all on the up and up. We all know—or do we?—that eventually Sam's I. O. U.'s will be made good—perhaps start to be paid off in a small way when and if the national income reaches $80,000,000,000 or $90,000,000,000 or what have you.

We are not exaggerating the financial jam in which Uncle Sam finds himself today. His head bookkeeper is officially responsible for a hopeful estimate that the present Federal tax system would produce enough revenues to cover a $9,000,000,000 a year budget, with a modest sum over for debt retirement, if the national income should reach a level, in dollars, about 10 per cent higher than the record high of 1929. Thus figured, a national income of about $89,000,000,000 would do the trick—if meanwhile the spending and borrowing had not been further boosted. That "if" is a very big one—in fact, super-colossal. You see, in the year ended June 30, Uncle Sam spent not $9,000,000,000 but, to be exact, $9,492,000,000; and there is more than one straw in the wind pointing to still larger spending in the present fiscal year.

Meanwhile our national income may be around $66,000,000,000 this year, if nothing goes sour; and this is a long way from $89,000,000,000. Between Mr. Hoover, who began it in the 1931 fiscal year, and Mr. Roosevelt, the Government has now been putting I. O. U.'s in the till for nine consecutive years. If it can not raise enough money to begin paying them off until the national income booms up to $89,000,000,000, you do not have to look very deep in the crystal ball to opine that the Federal debt—direct or indirect, on the record or hidden under the rug—is going to become considerably bigger before it becomes even a tiny bit smaller.

After the votes were counted last November quite a few naive citizens jumped to the conclusion that Congress would about face and plump for economy—but they just didn't realize what stuff the average Congressman is made of, what pressures he is up against, what slight resistance his organic system has to the spending itch once the disease gets a firm grip on him, and what exquisite pleasure he gets in voting for appropriations and against taxes. If you retain any illusions on this score, consider the following condensed, but accurate and typical, record of how one spending proposal was recently disposed of by the august United States Senate:

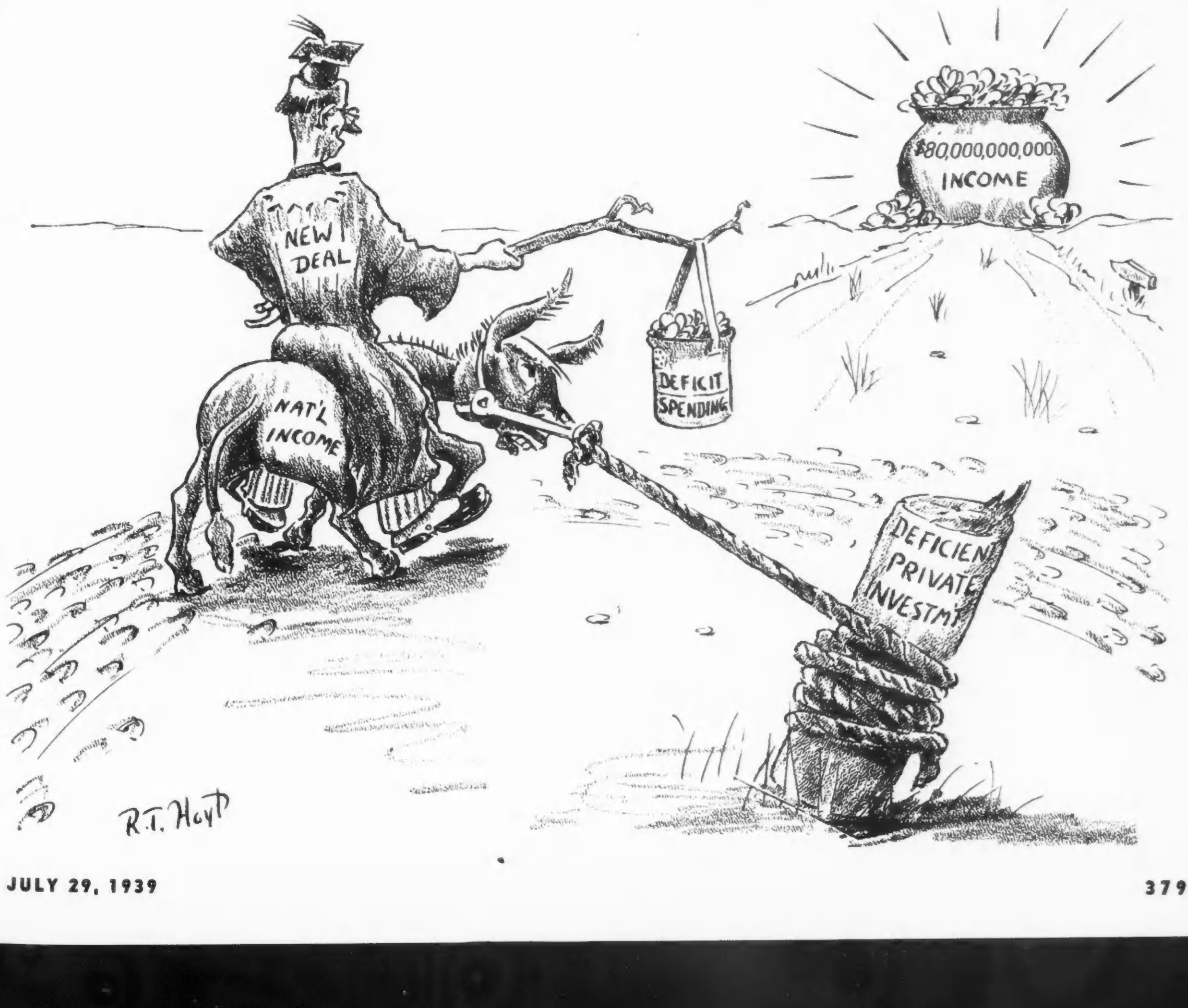
Under consideration is the bill of Senator Lee (D., Okla.) authorizing Government-guarantee of $350,000,000 *of mortgages on farms to be purchased for tenants desiring to become farm owners. The mortgages to be up to* 100 *per cent of farm values, interest* 3 *per cent, amortization extending forty years, five year moratorium on payments and interest if the farmer runs into hard times. A few desultory questions are asked and desultorily answered. Senator Taft (R., Ohio, professed economy advocate) mildly criticizes the bill as badly drafted and unworkable but adds that "the amount itself* ($350,000,000) *is not very large" and that he does "not want to take the time of the Senate opposing the bill at this time." Senator Gurney (R., S. D.) remarks that he thinks the Senate ought to have the benefit of his own state's experience with a similar scheme to transform farm tenants into owners. South Dakota, he says, in* 1919 *guaranteed* $60,000,000 *of farm mortgages and sus-*

tained a loss of approximately $40,000,000. *Some minor amendments of the Lee bill are accepted without vote. The presiding officer bangs his gavel and calls for yeas and nays. A bored chorus answers "yea." No "nay" can be heard. The Lee bill has been passed in a matter of minutes.*

What's another $350,000,000 tossed into the pot by the Senate, when the President and his fiscal experts have taught us that spending $9,492,000,000 a year is a good thing for us, necessary to keep up from diving into a depression, essential to recovery and a much higher national income? If Federal spending of $9,492,000,000 a year—about 60 per cent of it being borrowed money—is a good thing for us, why would not spending $10,500,000,000 a year or $12,500,000,000 a year be a still better thing? For that matter, why not just quit pussy-footing with the thing, print a batch of money and spend $20,000,000,000 or $30,000,000,000 a year? If spending Government money painlessly without equivalent taxation is a sure method of getting a national income of $89,000,000,000, then obviously the faster the Government spends, the sooner we'll reach the desired income goal. Only, it being so easy to lift ourselves by our bootstraps, it wouldn't make much sense to stop when we hit $89,000,000,000.

The New Dealers can logically answer that they are handling a powerful medicine which in too small a dose will do no good, in just the right dose will help the patient and in too big a dose will have fatal results. They are technically correct—but the weakness of their defense of deficit spending is that, judging by economic results, after six years of experimentation they still show no evidence of having hit on the effective dosage; there are strong circumstantial indications that a political, rather than scientific, approach has determined the timing of their "compensatory" spending; and it becomes increasingly obvious that they are forced to rationalize a fiscal policy which long since ceased to be optional. It was optional, and theoretically sound, when Mr. Roosevelt started it in the late summer of 1933. With wiser and more skilled administration, very likely it *could* have worked to the satisfaction of all—but today the plain fact is that the budget is definitely out of control, neither the President nor the Congress dares to cut off the vote-getting subsidies and the very great opportunity that the Administration had actually to prime the pump and to induce a revival of productive private investment has been fumbled away.

Contrary to the political conception that we faced revolution and hopeless ruin in March, 1933, the writer believes it self-evident that we were deflated down to absolute bed rock at that time and that no Administration ever came into power with greater opportunity to achieve both rational, workable reforms and a sustained, major recovery. Orthodox remedies, plus unemployment relief and a sizeable public works program, would certainly have turned the tide. There would certainly have been a much greater revival of private investment



than was seen in the following years—if business men and investors had trusted the motives and methods of the Administration.

There is no point whatever in name-calling or recrimination. The capitalist system is certainly not without its faults and weaknesses. It is fair to say that Mr. Roosevelt has done a badly needed job in awakening the social conscience of America. But it is also fair and accurate to say that the Roosevelt Administration has demonstrated an inadequate understanding of the inherent character of the capitalist system—of what makes it tick or fail to tick. It may be a complex system, but its central driving force is very simple and precisely what the name implies—the investment of capital in expectation of a profitable return. The sum total of New Deal philosophy, policies and methods of administration has discouraged this normal functioning of private capital. In practice the compensatory spending policy has become rather more of an inadequate *substitute* for private investment than an effective *supplement* to it.

Accurate calculation of the national income is an extremely complex statistical job, leaving room for a wide degree of possible error. Even if we accept the official estimates of the Department of Commerce at face value, comparison of any given volume of such income in dollars with the income of a past period is meaningless unless allowance is made both for differences in price levels and for growth of population. With allowance for a substantially lower cost of living, our national income in 1937, peak economic year of the New Deal, was very close to that of 1929 but on a per capita basis was about 14 per cent less than in 1929. Moreover, this is still an incomplete picture for the customarily accepted cost of living estimate applies to the average wage earner and is certainly not an accurate measure of the status of the investor class, whose fixed charges—such as insurance—take a relatively large proportion of income and whose investible margin of savings, as shown by official tax statistics, is far lower than in 1928-1929.

The Real Deficiency

The country's actual, physical flow of goods per capita is the most accurate and significant measure of our economic status under the New Deal. Some very illuminating light has been thrown on this by the research of Simon Kuznets for the National Bureau of Economic Research. Comparing 1936-1937 with the average of the best six years of the '20's, this shows volume of non-durable goods was almost exactly the same but combined volume of durable goods and construction was 17 per cent less.

Any recovery policy at Washington under any Administration will be a failure unless it is founded on a clear understanding of what these figures mean. The picture is not at all complex. First, the problem of sub-normal per capita national income and continuing huge unemployment, has its core in the deficient volume of durable goods and construction. Second, volume in durable goods and in construction depends in vital degree not on spending for consumption but on investment.

The most tragic outward manifestation of our predicament is unemployment. The reduction here, at the best levels of 1936-1937, was relatively moderate and the general scope of the problem today is not significantly different from what it was six years ago. To blame this wholly on the increasing tempo of mechanization in the mass production industries is ridiculous, because the manufacturing industries in 1929 employed only about 20 per cent of our gainfully occupied population and there is no convincing evidence of any such decline in this percentage as would explain more than a fraction of present unemployment. Moreover, to the extent that technological unemployment is a *part* of the problem, it is an ironical fact that it has been greatly speeded by the New Deal. Formerly, over a long period of years, it worked out that the benefits of technological progress were shared between capitalist, worker and consumer. Ever more efficient production at ever lower unit costs was what made our living standard the highest in the world by far. If we compare even our present depressed economic status with that of 100 years ago, it becomes obvious that mechanization has created far more opportunity for employment that it has destroyed.

The Speed of Change

But the speed of change needs to be considered, for fast change always disrupts the balance of the economic system. Quite aside from over-fast reform, the New Deal policies have inflated wage and production costs far more than they ever inflated commodity prices. At the peak of the 1937 recovery, prices remained substantially lower than in 1929; but wages in manufacturing industry spurted to a level approximately 20 per cent higher than in 1929. And while prices have been substantially deflated from 1937 highs, wage rates have not been. This is no particular hardship on well run industrial enterprises, for *unit* labor costs have been materially reduced from 1937 highs—but it should be obvious that a major inflation of wages and costs in mass production industries is not a good thing for our economy as a whole and is certainly not in the interest of re-employment. To attempt to solve the cotton or wheat surplus problems by maintaining prices is no more fatuous than to attempt to encourage re-employment and volume production by kiting wages. Since wage *rates*—not the same thing as wage income—in the majority of gainful occupations equal or exceed the 1929 average, and since the wage dollar today will purchase considerably more than it did in 1929, it would seem that we have had a conclusive and practical demonstration of the falsity of the theory that "high wages make prosperity." Moreover, it can hardly be doubted that the speed of wage inflation in recent years has tended toward abnormal acceleration of mechanization, especially as regards equipment of relatively moderate cost such as many types of machine tools. It is difficult otherwise—with full allowance for the world armament race—to explain the extraordinary volume of machine tool orders in 1936-1937.

Regardless of how far the present business upturn goes—whether it lasts three months or six months or nine months—we have no reason whatever to assume that the Administration has at last found the magic formula or that a solution of our fundamental recovery problem is at hand or that the (*Please turn to page* 419)

Paramount in a New Phase

Earlier Troubles Overcome, Company Pursues Effort To Regain 1937 Profit Levels

BY PHILLIP DOBBS

Photos in this article courtesy of Paramount.

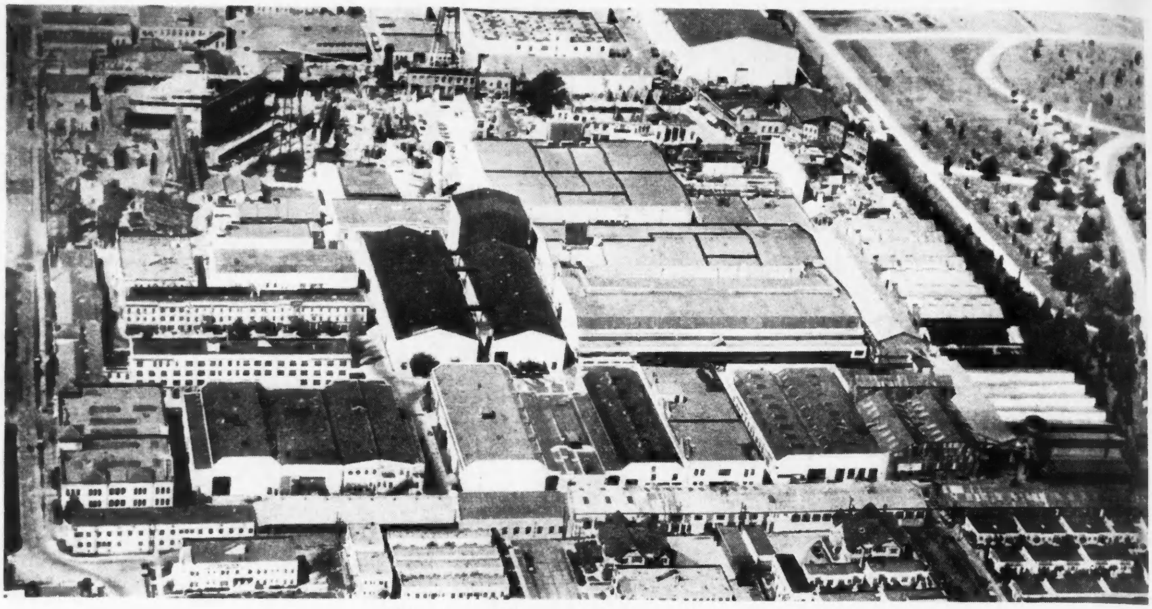
Soldiers Three in the new Beau Geste.

THE road for Paramount Pictures has been rocky since its reorganization in 1935. Almost immediately after some $300,000,000 in liabilities had been compromised and the company had been given a new start, it ran into the disagreeable discovery that more than a good-looking balance sheet was needed to complete the comeback. The brand new management was accused of incompetence, and supporting the claim was the fact that while its theaters were doing well and most of its competitors were grinding out profits on the production end Paramount still could not click with the cameras in the style to which it had previously been accustomed. Joseph P. Kennedy, fresh from triumphs in the S E C and in the Radio Corp. recapitalization, was hired to tell the directors just what was wrong.

The Kennedy report was released to stockholders only very reluctantly. In Wall Street it was considered scathing at the time, but looking back it seems quite moderate in pointing out the reasons for profitless film production. It noted that the operating deficit in the first quarter of 1936 was in spite of the fact that the theaters division showed a profit and continued to the conclusion that "Paramount's management which took over the affairs of the reorganized company less than a year ago has never succeeded in getting started during a period when other companies have made ample profits. In consequence, the rigid charges incident to a large-scale business operation threaten to eat into Paramount's capital before earning power can be re-established." The cure was seen principally in putting moving picture men in charge of the business and keeping New York fingers out of Hollywood affairs.

Helped by the trend of general business, the cure worked instantaneously. Adolph Zukor as chairman of the board was given the final word in production and Barney Balaban with his long experience in the theater business was made president. At the same time the board of directors underwent a thorough shuffling. In the first two quarters of 1936 Paramount had shown a small profit which was clearly the result of bookkeeping transfers out of a reserve previously set up. In the following quarter net income amounted to $2,013,764 or 96 cents a share on the common after providing for preferred dividends. Although aided by another $200,000 out of the special reserve fund, this was but one-fourth the amount used in each of the two previous periods. The company had suddenly found its feet and was not only making money but was re-building its reputation—which in this business is all-important to future profits. The common stock ran up to 25, from a low of 7⅛.

Paramount's troubles were not yet over, though. Late in getting aboard the up-cycle, the company soon found itself combatting a slump, not with its back to the wall as in the former case but nevertheless in the midst of a real struggle to preserve its earning power and reputation. The principal hazard that faces an exhibitor is the leverage which makes his profits bulge when receipts



Air view of Paramount's lot in Hollywood.

are improving and fade quickly when attendance falls off. So many charges are fixed regardless of the box-office take that the exhibitor's break-even point moves downward only slowly and reluctantly in spite of all possible retrenchments. The producer, on the other hand, may cut his costs per picture on short notice, he may make fewer A pictures, thus reducing his budget, and he may coast for a good while on the reputation of his recent successes. But if all of these expedients are used to the full, amortization charges on the pictures already made run on and this can be a burden, particularly if the retrenchment follows after a campaign of expensive pictures, as it usually does. Then by the time the producer's budget comes well within bounds the drop in quality of his pictures is established and his sales suffer.

A third handicap in a period of declining earnings, of course, is the leverage supplied by bonds and preferred stock. Paramount has both outstanding ahead of the common. Early last year the company got down to the point where it was working for bondholders and preferred stockholders and it looked as though the 1935 reorganization might not have been sufficiently drastic. The upturn found the company well-situated to take advantage of it, however, and earnings immediately began to improve. The change was so definite that some celebration was in order, no less than a cash dividend on the common, the first for the new setup, which is being paid to more or less surprised stockholders this month. It is only 15 cents a share but it marks what should be the beginning of a new stretch of road for Paramount.

The main weakness in the years following 1929 was the enormous chain of leased, owned and controlled theaters, acquired during a period of high prices and competition among buyers. The company is today by far the largest in this respect, with some 1,400 picture houses in its system of which not quite half are fully controlled. Several theaters are in England and France, but the great bulk are in this country and Canada. The results of the 1935 writedown of liabilities was to reduce rentals and charges of the theater division to the point where steady profits became feasible, as shown by the subsequent operations of this division.

Fully integrated, Paramount is also one of the largest distributors and producers of movies in the world, handling all types from newsreels to epics. The program for the next picture year, starting in the fall, calls for 58 feature length pictures to be released along with about 85 short subjects. Several features have already been completed and more are in process of filming. This program represents an investment of some $30,000,000 and its success will be all-important to earnings for the next twelve months.

Exports Threatened

All producers are up against a difficult problem in the threats to foreign markets—quotas, embargoes and restrictions of various kinds set by other nations to break our virtual monopoly of the market. Some merely hope to encourage their own industry; others begrudge the foreign exchange wasted on buying films instead of arms or raw materials; a few insist upon domestic production as a propaganda control. Whatever the reasons, the fact is that American movies find few good purchasing areas now open to them without restrictions, and the trend is toward fewer. This is serious to companies which have depended upon foreign revenues to account for better than a third of total rentals, in some pictures to more than half. If a widespread war were to come, of course, this revenue would cease immediately.

Paramount handles the problem as well as circumstances will allow. This year for the first time the company is planning to produce pictures in England as one solution of the quota problem. The president of the company made particular mention this spring of plans to hold up the level of foreign sales through the uncertainties now facing all exports. The principal means will be a program of concentration on pictures which

appeal to South America, the English-speaking nations, and other countries outside the zones where war is threatened. Surprisingly enough, except for Italy and Spain where Paramount is selling no pictures now, foreign business in early 1939 was running 10 per cent ahead of a year ago. Footage of film exports by the industry as a whole dropped only about 5 per cent last year from the high level of 1937 and with any relaxation of European tension there would be a good likelihood that the lost ground would be immediately regained. Furthermore, only 15 per cent of the cost of negatives is allotted to foreign markets, so that at least from the bookkeeping standpoint the company has minimized its loss from the outbreak of hostilities or further clamping down on the part of foreign governments. The fact remains that along with all the other industries doing any export business which does not enter into war plans, the movies are in danger of losing rather important buyers through no action of their own and with very little they can do to prevent the loss.

Our own Government has made no secret of the fact that it hopes to break up the link between production and exhibition which in its opinion constitutes a violation of the anti-trust laws. It is claimed that large producers can force their pictures upon independent exhibitors regardless of their merit through their control of the supply and their position as competing exhibitors. A suit recently filed against fourteen producers and exhibitors (Paramount among them) attacks alleged local monopolies in Oklahoma, Texas and New Mexico. The defendants are accused of forcing independent owners to sell their theaters by opening or threatening to open competing houses, by cutting prices, refusing to sell good pictures to the independents, and other methods.

If the eventual outcome is to be a segregation of production and exhibition, whether forced or voluntary, Paramount need not fear disaster. On one occasion when a voluntary segregation was being rumored the common stock ran up apparently on the strength of this development. At the risk of over-simplifying the situation, it might be put this way: The steady profit-producing part of the business is the theater division. The production end can make large profits when things click, or can at times impose a drag on the earnings of the theater division. If given to stockholders separately the virtues of both would be retained without the danger of one handicapping the other. Suppose a series of poor pictures were to throw the new producing company into receivership—the assets of the money-making theater company would be unaffected and its dividends could continue. In a sense, the effect would be to divided the possibilities of loss while keeping intact the possibilities of gain. This is admittedly without considering the question of how the divisions would function without mutual assistance. At one time the industry believed that conrolled theaters were the only solution for a producer's problems and that may still have some truth in it. There is at least a good chance, however, that where *all* were compelled to compete on an equal basis in selling and buying pictures the profits of all would be unharmed.

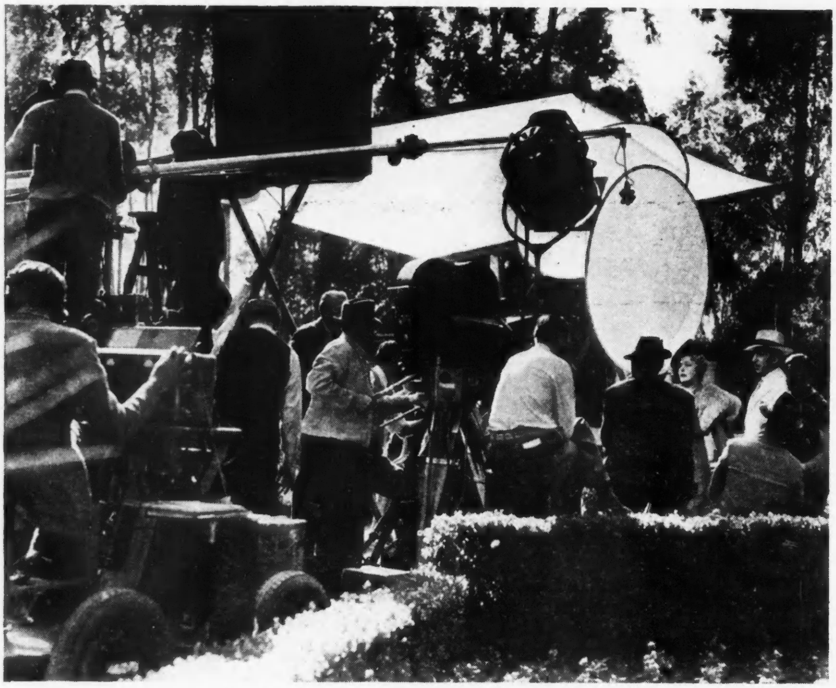
Among the developments of the future which many feel will have an important effect on the motion picture industry is the approaching spread of television as practical entertainment. Views are conflicting as to whether television programs and movies will be direct competitors to any greater extent than the radio and the movies, and until some actual experience has been obtained it will be pure guesswork to estimate the potential danger if any to the film producers and exhibitors. Television broadcasts in England which have been going on for some time do not appear to have lowered moving picture receipts. Paramount, however, is actively engaged in pushing television both on its own and as half-owner of the Allen B. Du Mont Laboratories. This company is one of the pioneers in developing transmitting and re-

Comparative Income Statements

Paramount Pictures and Consolidated Subsidiaries

	1938	1937
Theater receipts, film rentals, sales of film accessories and rentals	$100,927,939	$104,185,953
Dividends from affiliated companies	2,179,622	3,120,253
Other income	1,252,820	1,727,264
Total Income	$104,360,381	$109,033,470
Theater operating and general expenses	$46,787,241	$47,297,606
Film distribution	15,838,093	16,812,863
Amortization of film	33,228,536	32,624,092
Total Operating Expenses	$95,853,870	$96,734,561
Operating Profit	$8,506,511	12,298,909
Other Income	292,361	67,650
Deduct:		
Interest charges—subsidiaries	$959,098	$993,039
Depreciation	3,309,348	3,190,382
ncome taxes	484,036	635,697
Minority interest—preferred and common stocks	308,572	324,947
Reserved for contingencies	110,000	175,000
	$5,171,054	$5,319,065
Interest on Paramount Pictures indebtedness	1,094,540	1,002,391
Profit on purchase of Paramount debentures	332,397	....
Net Profit	$2,865,676	$6,045,103
Fixed charges—times earned	2.26	3.97
Earned per share:		
1st preferred	$17.82	$42.52
2nd preferred	3.03	9.35
Common	.55	1.97

Including interest of Paramount Pictures in undistributed earnings of subsidiaries not consolidated, income for 1937 was $6,670,103 or $2.22 per common share, and the corresponding figure for 1938 was $4,105,676 or $1.18 per common share.



Actors are outnumbered 5 to 1 in making this typical closeup scene.

ceiving equipment. It has already received permission to erect a transmitting station in Passaic, N. J., and will manufacture and sell sets for home use.

Paramount has also developed a special film for use in television, the plan being to use the talent of the motion picture industry to make programs which will be broadcast by the radio chains. The scope of these plans will be limited by the response of advertisers to television as a medium, and it is probable that all concerned will go slowly until the commercial possibilities can be measured. That television over the longer term carries a promise, though, as well as a threat for this company is plain to be seen.

When current plans are carried out Paramount will have ideal facilities for its production on the West Coast. A new studio site has been selected in Los Angeles to replace the present one in Hollywood. The cost of the site is $300,000, but a total of $12,000,000 will eventually be spent in giving the company a completely centralized plant covering 150 acres to be known as Paramount City. There will be 26 sound stages, 10 acres of parking space, a reservoir big enough to hold a steamship for ocean scenes and plenty of room for the erection of permanent street sets. In addition the rolling type of land on which the studio will be built will allow the taking of many outdoor scenes right at the studio. All of which is expected to contribute greatly to efficiency and economy.

No new financing will be needed to carry out plans for the new studio, since its construction and occupation will be undertaken gradually. If financing were necessary, Paramount would find itself in greatly improved condition as a result of its changes in capitalization over the last few years. Interest-bearing indebtedness has been reduced by over $10,000,000 since reorganization, and preferred stock issues having about $12,000,000 par value have been eliminated from the capital structure. Interest charges on the remaining debt have also been reduced, so that while such charges amounted to $3,000,000 annually in June thre eyears ago they are now about $1,700,000 annually.

Elimination of part of the preferred stock issues has been through conversion into common, increasing the amount of that issue outstanding. At the beginning of this year the company had notes payable not due within the year and purchase money obligations amounting to $6,293,000, subsidiary mortgages and bonds of $14,554,000 and two issues of its bonds, one at 31¼% in the amount of $11,247,200 and the other at 6% in the amount of $9,440,000. By last month all but a nominal amount of the latter issue had been retired and arrangements had been made to eliminate completely the 6% bonds, mainly through use of the company's cash, partly through term loans at lower rates of interest.

There were also 142,171 shares of 6% convertible first preferred stock, $100 par value, convertible into common at the rate of seven-for-one, and 555,070 shares of 6% second preferred stock, $10 par value, convertible into common at the rate of nine shares of common for ten of preferred. Common stock had been increased to 2,465,927 shares by the end of 1938 through conversions of the preferred issues and is obviously subject to further increase as circumstances make conversion attractive. The 3¼% bonds are also convertible into common stock at 33 1/3 until March, 1942, and at 40 for the next five years.

If the bonds and both preferred issues were to be completely exchanged for common stock, the result would be to increase that issue by 1,832,176 shares and to leave it the main capitalization aside from subsidiary obligations. Preferred dividends and bond interest thus eliminated would be the equivalent of 85 cents a share on the additional common stock issued in the conversion. Exchange of the bonds for common is likely to depend on dividend payments on the latter issue, while exchange of the preferred stocks may continue as in the past whenever a spread large enough to make arbitrating profitable occurs.

There are two ways of figuring Paramount's earnings. One includes and the other excludes the company's interest in the undistributed profits of partially owned subsidiaries not consolidated. Including these earnings last year's profit on a consolidated basis was equal to $1.18 a share on the common after preferred dividends; without them the year's result was equal to 68 cents a common share.

Omitting the earnings of un- (*Please turn to page 420*)

Signals to Watch in the Bond Market

Barring War, No Serious Decline Is in Sight

BY C. HAMILTON OWEN

In 1920, an investor with $17,637 would have been able to invest it in United States Government bonds and receive an income of $1,000 annually. In 1933, before the nation's most severe depression had become history and Government bonds seemed to be the sole haven for badly frightened investors, a total investment of $30,200 in Government bonds was required to produce an annual income of $1,000. Today, the investor would have to invest $42,735, if his choice is still Government bonds and he requires a return of $1,000 annually. On this basis his money would be invested to yield 2.3 per cent.

The yield on high grade corporate bonds has likewise been steadily whittled down. At the beginning of July the *Annalist* average net yield on ten highest grade public utility bonds was 2.86 per cent; on ten highest grade railroad bonds 3.5 per cent.

The prevailing low bond yields are the result of a seven-year bull market for bonds. During this period bond prices have reacted on several occasions, only later to recover to new high levels. In the first week of June, the bond market as measured by the averages of high grade bonds attained the highest level ever reached. Since then prices have receded only moderately, but enough to raise again the question as to possibility of a more protracted decline in bond prices and, perforce, a rise in bond yields.

On numerous occasions during the past seven years, predictions of a declining bond market have been freely made, predictions not merely of temporary set-backs but of a longer term recession in bond prices. To say the least these predictions were ill-timed. Where most of them erred was in their reliance upon the more orthodox factors which in the past have governed the trend of bond prices. The present-day conception of our national economy and our practice of national monetary control have had the effect of virtually nullifying the forces formerly influencing the bond market trend.

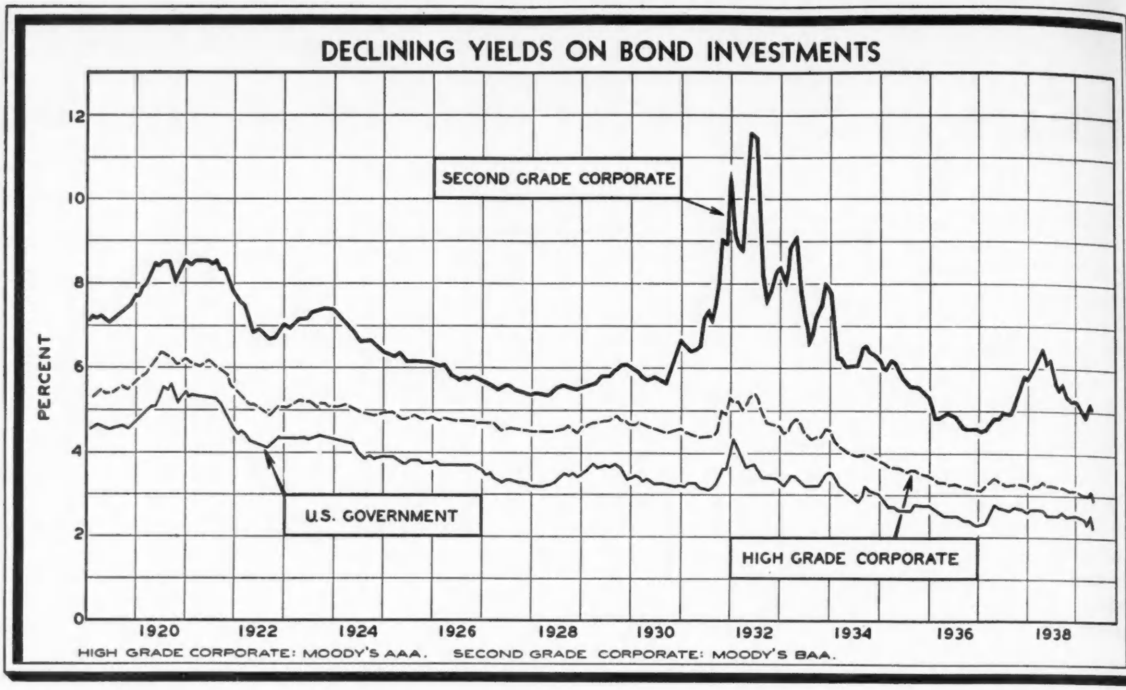
But even in the most sophisticated quarters, where these new forces are well understood, there is by no means unanimity of opinion over the soundness of the present top-heavy structure of the bond market. Much of the uneasiness over the bond prospect, however, is probably traceable to the "what goes up must come down" school of thought which reasons that avalanches never start in the valley but at the top of the mountain. In other quarters misgivings are based on the reasoning that the bull market in bonds, because it was artificially created and artificially and deliberately supported in furtherance of the Administration's easy money policy, is unsound and therefore extremely vulnerable and likely to collapse without warning.

There is no point in condemning these views as outmoded, or those who hold them as "old fogies." The chances are that if and when a serious decline occurs in the bond market it will be for some of the very reasons which the dissenting opinion holds at the present time. But in the meantime, bearish minded bond buyers may have an extended wait before they will be able to buy high grade bonds *substantially* below their present prices.

As a measure of the degree of confidence with which responsible investors regard the present bond market, nothing could be more convincing than the very evident willingness of institutional investors—banks, life insurance companies and other fiduciary interests—to add to their bond portfolios at every opportunity and at top prices. One of the most striking examples is to be found in the decisive shift made in the investment policies of the Federal Reserve Member Banks in New York City. Last March, in the short space of three weeks, these banks added $349,000,000 in United States government bonds to their portfolios, while during the same period there occurred substantial liquidation in their holdings of short term Treasury bills and notes, most

Selected Bonds for Current Investment

Issue	Call Price	1939 Price Range High	Low	Recent Price	Current Yield
Florida Pwr. 1st 4's '66	105	97⅞	89¾	97½	4.08
Koppers Co. 4's 1951	103	103¼	99	103	3.88
Armour & Co. (Del.) 1st 4's 1957	105	101	96	101	3.96
N. Y. State Elec. & Gas 1st 4½'s 1980	102½	104⅜	99	103½	4.33
Container Corp 5's 1943	101	100¼	96	100	5.00
Columbia Gas & Elec. 5's 1961	104	103⅞	92¾	103	4.85
No. Indiana Pub. Serv. 4½'s 1970	104	105½	102	104	4.33
Loew's Inc. 3½'s 1946	103	103⅝	98¼	103	3.40
Minneapolis Pwr. & Lgt. 4½'s 1978	101¾	102¾	97⅛	102¼	4.41
Texas Elec. Serv. 5's 1960	104¼	104¼	97	103½	4.81
Champion Paper & Fibre 4¾'s 1950	105	104⅞	100⅜	104½	4.52
Purity Bakeries 5's 1948	104	104½	95⅛	104	4.81
Illinois Pwr. & Lgt. 5's 1956	105	102	94⅛	102	4.90



of which were selling on virtually a no-yield basis.

Although Treasury bills and notes contributed little or nothing to the earnings of these banks, they were the practical equivalent of cash, and to the extent of their holdings, the banks were safeguarded against any decline in the bond market. On the other hand, long term Treasury bonds, which even last March were very "rich," nevertheless were selling on a basis to yield a more attractive return than the earlier maturing bills and notes. Weighing their better yield against their vulnerability to any developments resulting in a hardening of interest rates, the New York banks apparently decided against the likelihood of any imminent rise in interest rates. Treasury bonds acquired by these banks last March now show a sizeable profit, but as yet there has been no change in their policy and holdings of short term notes continue to be reduced and commitments in longer term Treasury bonds enlarged. Treasury bond holdings by New York member banks are now at a new peak.

Additional indications of the nature of responsible investment opinion are to be found in the readiness with which insurance companies will absorb an entire new issue of corporate bonds. During the past several months any number of new corporate and municipal bond issues have been marketed at prices to yield from 1.75 to 3 per cent with subscriptions far in excess of the total issue. Most of these bonds are not the type of issue which is attractive to the average individual investor but institutional investors will bid eagerly for them.

Granted that investments are the great bulk of the earnings assets of banks and life insurance companies and these institutions with their coffers overflowing with investible funds are under a strong compulsion to put this money to work at almost any yield. Nevertheless, it is certain that these institutional investors, particularly banks, would prefer to keep the bulk of their funds liquid, earning nothing, rather than risk the possibility of substantial capital losses were the bond market in their opinion likely to suffer a serious sinking spell in the near future.

Behind this convincing display of confidence in the bond market on the part of responsible bond buyers lies a line of reasoning which seems almost irrefutable. It is based on the simple knowledge that the factors and conditions which would push the bond market into a precipitous descent are either not present or are totally dormant at the present time. Despite the fact that the character of the present bond market is virtually without precedent, the forces which have combined to bring it about are well known and understood and until these forces are either spent or modified, a serious break in the bond market can only be considered in terms of the indefinite future.

That there will be a change in the trend of bond prices some day is certain, for there has been nothing since the beginning of time that has not changed. But preceding any change, other than temporary or technical, in the bond market there will of necessity have to be sweeping changes in the basic fundamentals underlying our national financial economy—changes fully as sweeping as were those which pushed bond prices up to historically high levels.

One of the major expedients to which the New Deal administration has steadfastly adhered as a means of promoting business recovery is the policy of making money as cheap as possible to borrow. Vested with the necessary authority and machinery it has been possible for the Government to create a huge reservoir of funds in the hands of the banks and the public. By raising the price of gold, by deficit financing, by having Reserve banks buy Government bonds, by lowering reserve requirements, by de-sterilizing gold, by all of these methods has the Government been able to greatly en-

large the supply of funds and potential credit. The resulting distortion in the relationship between the supply of funds and the demand for credit has forced interest rates to unprecedently low levels.

Low interest rates, however, have failed to generate large scale commercial borrowing or induce industry to create long term credit obligations for new plants, equipment and other capital purposes. The necessary confidence in the future which alone would induce business and industry to borrow new capital has been lacking and for this reason the Administration's easy money policy, as a recovery stimulant, has fallen considerably short of its goal.

Minus the outlets afforded in the past by commercial borrowing and new capital financing, funds accumulating in the hands of the public and the banks have sought voluntary credit outlets in the form of Government and high grade corporate bonds. With demand greatly in excess of the available supply of such bonds, and with the public and institutional investors competing against each other, the irresistible force behind rising bond prices can be appreciated.

With bond prices rising to record heights and with yields receding almost to the point of disappearance, the high grade bond market has become practically closed to the average individual investor. In addition, good bonds which he holds are being rapidly replaced by issues bearing coupon rates of 3 per cent—and lower. If corporations have been unwilling to take advantage of low interest rates to raise new capital, they have lost no time in availing themselves of the opportunity to refund outstanding bonds with issues bearing a lower rate of interest, thereby effecting an important savings in fixed charges. This, of course, favors the owners of the company, the common stockholders, but at the same time it aggravates the problem of the individual investor requiring security and dependable income and who has difficulty in reconciling his ideas of a reasonable return on his money with the prevailing rate of return today. Nor does it appear likely that individual investors will be able to purchase good bonds on a higher yield basis for some time to come.

With the Administration in the position of having underwritten the bull market in bonds, the future course of bond prices will in a considerable measure depend upon what action is taken by the monetary control authorities—the Treasury and Federal Reserve Board. It is only necessary for the Government to reverse the same tactics which were responsible for the decline in money rates in order to bring about a rise in money rates and, perforce, a drop in bond prices.

A balanced budget would remove the necessity for deficit financing. Credit could be contracted by having the Federal Reserve Banks sell Government bonds in the open market; reserve requirements could be raised; gold could be sterilized; the price of gold could be reduced; and gold could be allowed to be exported. All of these measures lie within the scope of Government monetary control, but it is doubtful whether any of them are likely to be exercised in the near future. In fact it is doubtful whether even a complete change in the Administration would result immediately in any drastic alteration of the easy money policy.

The fact that easy money has failed to promote any worthwhile business recovery cannot now be made an effective reason for altering it. The Government is under the compulsion to finance annual deficits which are becoming larger, not smaller. Any hardening in interest rates might precipitate a crisis in Government financing plans. With commercial banks holding the bulk of Government and other high grade bonds, higher interest rates and lower bond prices would result in a serious depreciation in the value of the assets and capital of these banks.

Signals to Watch For in the Bond Market

Barring the outbreak of a European War, the probabilities are that some, or perhaps all, of the following conditions would materialize to precede and accompany a protracted decline in high grade bond prices:

(1) A rise in short term money rates.

(2) A substantial and sustained increase in commercial borrowings.

(3) A marked increase in new capital financing.

(4) Selling of Government bonds by the Federal Reserve Banks.

(5) An increase in reserve requirements.

(6) A balanced budget.

(7) Sterilization of gold.

(8) Reducing the price of gold.

(9) Heavy exports of gold.

If higher interest rates and lower bond prices forced commercial banks to substantially reduce their bond portfolios, the resulting contraction in deposits would be almost certain to have a harmful effect upon business. Moreover, the uncertainty engendered by declining bond prices would undoubtedly lead to the indefinite postponement of corporate financing arrangements and further aggravate the protracted dearth of new capital financing.

From the foregoing, therefore, it is difficult to conclude other than having gone this far the Government is not yet in a position to retrace its steps. The experience of attempting to do so early in 1937 is probably still fresh in the minds of the monetary control authorities. By raising reserve requirements on August 15, 1936, March 1, 1937, and May 1, 1937, the bond market under a wave of liquidation suffered a severe setback, as did general business, forcing control authorities faced with a higher cost for borrowing and refunding subsequently to lower reserve requirement and de-sterilize gold in order to restore lower money rates and raise bond prices.

Throughout this discussion, emphasis has been placed on the probable trend of bond prices over the next year and longer. As to the shorter term trend, the possibility of some recession of modest proportions is conceded. After the sharp rise which occurred in June some reaction might logically be expected on technical grounds alone. At the present time the flow of gold to the United States is in substantially smaller volume than it was earlier in the year. Business is improving and commercial demand for funds may be more active. In fact, commercial loans by New York City member banks have recently been showing a contra-seasonal upturn. A substantial gain in new financing is scheduled for the next several months and an increasing supply of new issues might have the effect of easing the pressure of demand for more seasoned (*Please turn to page* 418)

Present and Future Leaders in Containers

Cans, Bottles and Cartons Fight for the Market

BY MONROE E. MARSHALL

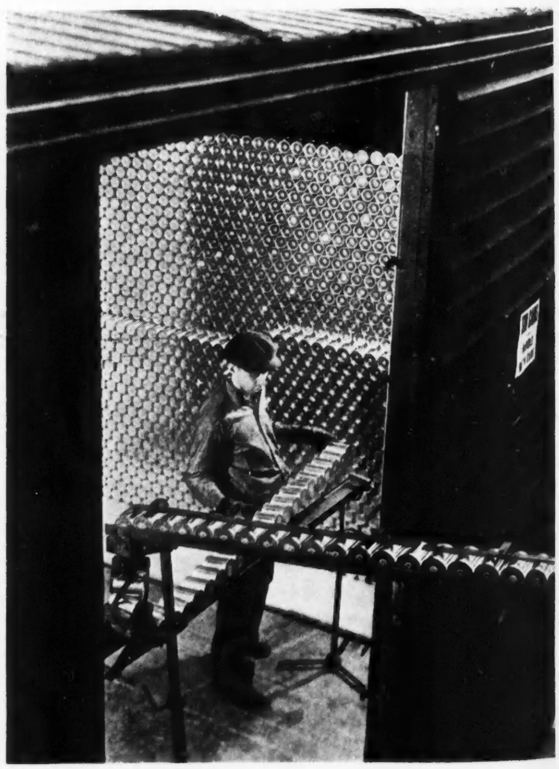
CONTAINERS—containers made of tin, glass and paper—have enabled American industry to raise the art and science of packaging and merchandising to their highest level of development. Ask anyone to name a product, smaller than an automobile, and which enters into mass consumption, that is not shipped or sold in some type of container and they would be hard pressed to answer. The container is a silent, but effective, salesman. The business of supplying this huge market is a major industry.

In examining the corporate components of the container industry, it is necessary to separate it into its three major divisions—tin, glass and paper. Each is subject to its own problems, and beyond a certain point there is a definite divergence in the factors determining sales and earnings.

All three divisions, however, enjoy a common and important advantage. The dominant characteristic of the container industry is a large and relatively constant replacement demand. With very few exceptions, merchandising containers are a "one trip" proposition. Once the container and its contents reach the ultimate consumer, its purposes have been served. The contents are consumed and the container destroyed. Sales rise and fall to some extent with the shifting tides of general business and public purchasing power but they have shown stubborn resistance to depression influences.

Between 1929 and 1932 aggregate output of tin containers, for example, showed a maximum decline of only 10 per cent, as compared with a drop of 50 per cent in all industrial production. The decline in the output of glass containers and paperboard, although more pronounced than in the case of cans, was substantially less than the slump in general business. Demand for tin containers, under all conditions, is accorded a greater measure of stability owing to the fact that about two-thirds of the annual output is in the form of packers' cans used for soups, peas, tomatoes, corn, beans, etc., consumption of which is least affected by depression influences. Demand for all containers, however, is strongly depression-resistant because they are widely used for packing and shipping merchandise of the consumer goods type, not subject to the more extreme cyclical variations.

Although the division of the container industry into three major groups is well defined, in recent years the corporate division of the industry has become less defined, as activities of various companies, formerly identified exclusively with one group, have shown a growing tendency to expand and overlap one or both of the other divisions. Makers of bottles and other glass containers have added tin containers to their line; manufacturers of crowns and closures have invaded both the tin and glass fields; and the leading manufacturer of tin cans is rapidly attaining large scale production of the latest type of paper containers for retail milk distribution.



Courtesy American Can Co.

Loading cans for shipment to the packer.

Both inter- and intra-group competition is exceptionally keen. In both the tin and glass divisions, however, industrial leadership is concentrated with a comparative handful of well established companies, with the result that competition, although intense, is limited to a natural business rivalry and rarely reaches the price-cutting stage, or other cut-throat antics. The paper division, however, is compelled to support a fairly large margin of excessive productive capacity, a condition which frequently reflects itself in price-cutting, usually when volume is falling off and producers become hard pressed to move inventories and maintain plant efficiency. As a consequence the earnings record of paperboard makers has been spottier than that of either the tin or glass divisions.

Leading Container Companies—1929 and Today

Company	Net Income (millions) 1929	1937	1938	Earned Per Share* 1929	1937	1938	Divs. Paid 1938	Recent Price of Common
			Tin Containers					
American Can	22.7	17.9	13.6	8.02	6.08	4.35	4.00	96
Continental Can	9.0	8.9	7.1	3.35	3.06	2.17	2.00	38
Crown Cork & Seal	1.5	1.6	1.2	1.95	2.16	1.37	0.50	26
McKeesport Tin Plate	2.3	0.9	d0.7	3.81	1.26	d0.93	0.50	11
			Glass Containers					
Anchor Hocking Glass	1.1(p)	1.2	0.75	4.05(p)	1.24	0.68	0.45	23
Hazel-Atlas Glass	2.1	2.9	2.2	4.81	6.67	4.97	5.00	109
Owens-Illinois Glass	4.5	9.4	5.4	2.40	3.51	2.02	1.50	67
Thatcher Mfg.	0.9	1.1	0.7	3.28	4.47	2.12	1.50	20
			Paper Containers					
Container Corp	0.7	1.8	0.03	1.23	2.28	0.04	0.30	11
Robert Gair	(b)	0.6	d0.02	(b)	Nil	d1.03	None	2½
Gaylord Container	(a)	1.8	0.9	(a)	2.76	1.11	1.00	12
Hinde & Dauch Paper	0.5	1.5	0.6	0.73	3.55	1.29	1.00	11
National Container	0.2	0.3	0.1	0.57	0.94	0.38	0.50	5
Sutherland Paper	0.4	0.8	0.6	1.29	2.80	2.04	1.60	25
United Paperboard	d0.2	0.04	NF	d0.32	d0.15(c)	NF	None	4½

*Based on present capitalization. (a)—Formed 1937. (b)—Reorganized 1932. (c)—Fiscal year ended May 31, 1938. d—Deficit. p—Predecessor company. NF—Not Available.

Of the three groups, the tin container division is the largest. Average annual output of tin cans is nearly double that of glass containers. Tin cans are favored by two conditions. Unit prices are low and they are still the most widely used medium for food distribution, which in itself is a large-volume industry. Approximately, 60 per cent of all sales of tin containers is accounted for by food products, not including milk and beer. In 1937 (latest available figures) the Department of Commerce reported that of total can sales in that year, packers' cans accounted for 9,593,000,000; beer cans, 629,000,000; milk cans, 2,000,000,000; and miscellaneous uses, 4,155,000,000. The latter group includes the so-called general line cans used for packaging a wide variety products of which oil, paint, tobacco, coffee, candy, crackers and tooth powder are typical. Use of general line cans has been steadily expanding in recent years, but for the industry as a whole the outlook is for moderate and gradual growth, rather than large scale expansion. Research, however, plays an active role in the activities of leading can makers and conceivably new types of cans and packing processes may be developed to a point which would appreciably accelerate the rate of growth.

The manufacture of tin containers is dominated by two leading companies, American Can, which accounted for about 46 per cent of the dollar volume sales of all cans in 1938, and Continental Can, whose share was about 24 per cent. Less than 10 per cent of the total was shared by Crown Cork & Seal, National Can and Owens-Illinois Can, with the balance being thinly distributed among small local concerns. National Can was merged with McKeesport Tin Plate Corp. in 1937, while Owens-Illinois Can is a subsidiary of Owens-Illinois Glass. Crown Cork & Seal, the leading manufacturer of crowns and closures for cans and bottles, broadened its activities in 1936 to include the manufacture of both glassware and metal containers. Thus far, however, the company's progress in both of these new fields has been slow and contributions to earnings have been restricted. McKeesport Tin Plate is the fourth largest domestic producer of tin plate and the third largest manufacturer of metal containers, although ranking far behind Continental Can Company has been handicapped competitively by the lack of up-to-date equipment. It is rather apparent, therefore, from the foregoing that investment participation in the metal container industry may be best obtained through the medium of the shares of either American Can or Continental Can.

Both American Can and Continental Can have long records of consistently profitable operations to their credit. Profits were shown by both companies, even in the darkest of depression years, and dividends have been paid without a break for ten years or longer. Both companies are considered to be the lowest cost manufacturers of tin containers. Even so profit margins per unit are extremely narrow. Volume determines earnings. Thus, with about 70 per cent of tin container market concentrated in two entrenched companies, there is little in the industry to attract new competition, or scant likelihood that the compeitive position of either company will be seriously challenged by existing competition.

The manufacture of tin containers is largely a mechanical process and the item of labor costs does not bulk large, averaging about 10 per cent of sales. Tin plate prices are the most important factor in costs, averaging about 60 per cent of selling prices of tin cans. Tin plate prices, however, are quoted on a quarterly basis and container manufacturers have in the past been able to make prompt adjustments of any changes with their customers.

Can makers are now approaching their seasonal peak of production. The three months July through September normally account for about 50 per cent of annual sales, a seasonal concentration which reflects the extent of the industry's reliance upon the food and vegetable pack. Last year, as a result of unusually favorable growing conditions, (*Please turn to page* 419)

As the Trader Sees Today's Market

— Price Trends as Check on Fundamentals
— Seven Groups and the Market

BY FREDERICK K. DODGE

WHILE dividend payments affect the stock market they do not forecast the price level; on the contrary, the market has a way of discounting directors' decisions in general long before they are made. The prices we see today are the latest judgment of the prospective worth of equities—worth not only as capital assets but as income producers. If market action can be correctly interpreted it supplies a picture of the trend in fundamental conditions well before the trend becomes visible, before the accrual of earnings which will later become the deciding factor in dividends.

This element of timeliness means the difference between an effective and a grouping policy toward income from common stocks, whether or not the investor is also trying for capital growth through portfolio changes. Even those who are completely skeptical toward chart formations and other formalized methods of interpreting market action can at least profit through familiarity with the background of prices. For prices, after all, are the definite and tangible test of the accuracy with which fundamental conditions are judged.

Consideration of the technical position of each group will therefore be undertaken as an important adjunct to the mid-year Dividend Forecast. The chart on the opposite page shows the action of seven individual groups compared with that of the market as a whole over the past year. This period includes the last of the rally which began on June 20, 1938, and the first part of the upmove beginning in the middle of July, 1939. It shows the market average making a series of descending tops from last October onward and breaking the September lows in April of this year. At just over 50, however, the broad average of 316 active stocks, uppermost line in the chart, held at its lowest point this year 6½ points above its low in March, 1938.

Machinery Issues Volatile

The Machinery group made its high in November rather than October, but duplicated the pattern of descending tops formed by the broad average. Its April low of 83.3 was less than 6 points above its 1938 low, thus failing to show resistance to the decline as robust on a percentage basis as the average. It will be noticed too that the June rally top in this group was below the bottom of the September break and that from the July low considerable ground remained to be covered in order to penetrate the preceding intermediate peak. The group is a highly volatile one, however, and conclusions as to its technical record must be brought up to date frequently.

The trend of the Business Machines group over the past twelve months has been definitely downward, despite the encouraging action of one or two individual issues contained in it. The tops in September and October were lower than that in August, whereas the market average rallied strongly above its August top. Furthermore, the low of 118.0 in the week ended July 1, 1939, broke the 1938 low of 120.2 and the 1937 low of 135.4. This is the only group which after making a bottom in April of the current year followed by dropping to a lower level in July. The poor technical action is undoubtedly due in some part to the dependence of this industry on foreign markets, and the period of war scares may end without warning thus easing the pressure on the office equipments, but until some improvement becomes apparent in the market for these stocks it will be necessary to allow for the special factor of European unrest in predicting dividend policies.

The Rail Equipment group was one of the few able to go through to a new high in the closing week of 1938. It thus presents a perfect head and shoulder pattern, the left shoulder in November, the head at the turn of the year, and the right shoulder in May. It will be noticed that both the right shoulder and the right armpit are lower than the left—a sign of weakness somewhat greater than the ordinary according to most chart readers. The implications of the formation, however, could very well have been fulfilled by the drop already witnessed and need not be taken as bearish in the current picture.

The descending tops in the Agricultural Equipment group are very obvious. After making three tops across which a ruler can be laid the June rally was disappointing, but not much more so than the comparable action in the broad average itself. This was another group to register a lower nadir in 1939 than in 1938.

Public Utilities had the distinction of holding above the September lows this spring and also of holding stubbornly above this year's April lows in the reactions which came subsequently. It is interesting to see that despite suspicions that inflation might be once again

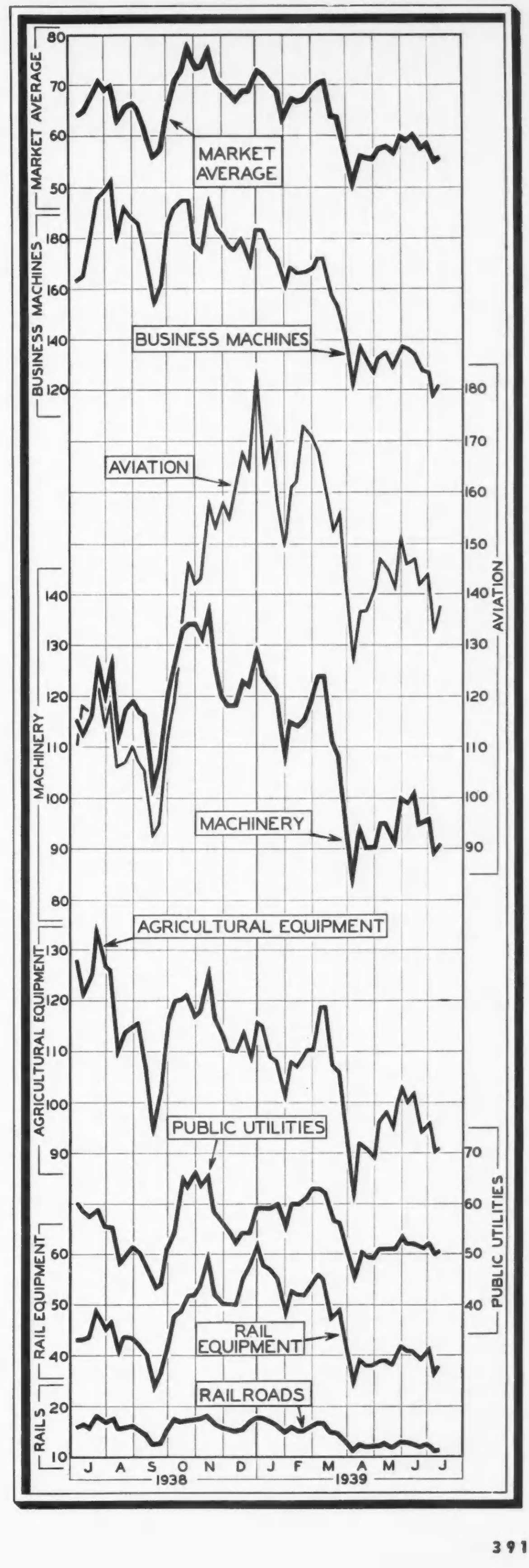
edging its way into the forefront as a market factor the utilities which have little to gain and much to lose from inflation have been giving one of the more bullish market performances. The level around 50 is about the same at which the downtrend in 1937 halted before continuing in 1938, which may give the group some trouble in getting through, but the formation to date is encouraging.

Rails came within half a point this year of equalling the high point registered in 1938 but were turned back along with weakness in the general market. The low in 1937 was 16.2 (following a high of 48.6), in 1938 it was 10.6, and in 1939 it was 10.9. For several months the group has given signs of being rather thoroughly liquidated. Few equities among the rails are logical dividend payers, but the technical indications are in favor of improvement in the industry.

Most spectacular market performers of all the groups considered are the Aviations. The yearly price ranges have been as follows: 1937—high 178.0, low 73.4; 1938—high 182.7, low 75.2; 1939 to date—high 182.7, low 128.2. The all-time high for the group came at the exact end of 1938, thus accounting for the similarity in upper limits of 1938 and 1939. In common with the utilities, the Aviation group held without breaking its September lows this year, but it held by a very wide margin. The markdown since January has apparently been in response to general market and technical factors, and it might safely be assumed that its extent has been sufficient to permit the group to go ahead once more when conditions become more favorable. Over the past few months the action has resembled consolidation and possibly some scattered re-accumulation rather than large scale distribution. The principal test of a technical nature, however, will come when previous resistance levels are attempted.

As general background for this technical consideration of the individual groups it should be noted that charts are always likely to look bearish when the market has been going down. Such groups as Business Machines or Agricultural Equipment, for example, might give the impression that dividend reductions are nearby probabilities. That this is not necessarily the case is shown vividly by past experiences when the turns for the better in both earnings and disbursements came while stock prices were little above their lows. It will be particularly illuminating to watch these groups over the next few weeks as prospects for autumn business play a heavier part in the picture. The market has been accused of tardiness in registering the outlook, but the chances are that strength in July (if not subsequently canceled) means better earnings in October.

Investors searching for technical verification of the apparent fundamental trends will frequently find it worth while to go beyond group action and into that of individual issues. At times a certain group will move in complete harmony, but there are other times when one or two companies run into difficulties, competitive or otherwise, which send their stocks off at a tangent from those of other companies in the same industry. Conclusions drawn from group action can then be somewhat misleading over the short term. The only way around this difficulty involves a considerable amount of work in studying the action of the issues in which one is particularly interested, but the reward will be substantial in relation to the effort required.



Appraisal and Special Mid-Year Dividend Forecast

Part I — Machinery, Machine Tools, Electrical Equipment, Aviation, Farm, Business and Rail Equipments, Utilities, Railroads

Whatever doubts and uncertainties there may be in Europe and in domestic politics, business activity in the first half of this year averaged far above that in the first half of 1938 and the trend, turning for the better from the recession low of April, is now pointing up. This is reflected favorably in a majority of the half-year corporate earnings statements now coming to hand.

Despite the lapse of the undistributed earnings tax, there is a tendency toward reasonable liberality in dividend policy, especially on the part of strong companies well fortified with cash. Increased or resumed dividends greatly exceed reduced or omitted dividends. Barring war, this trend should continue.

Part I of our Mid-Year Dividend Forecast is here presented, covering the industries listed at the top of this page. Part II in the issue of August 12 will cover Motors and Accessories, Foods, Meat Packers, Sugars, Liquor, Steels, Movies, Tires, Tobacco and Chemicals. Part III in our issue of August 26 will cover Metals, Oils, Building Materials, Merchandising and Miscellaneous Industries.

The tables are accompanied by our investment ratings, explanation of which is presented above. As an added service feature, issues favored for safe income are marked with a star symbol; issues favored for cyclical appreciation potentialities with a dagger symbol; and issues which have paid substantial dividends for ten consecutive years or longer with an asterisk.

Two fundamental factors, the industry and the company itself, are used to form our ratings. The letters, A, B, C, D, are used in connection with the industry according to the current and prospective activity in the field. These letters are not concerned in any way with individual companies. The numbers, 1, 2, 3, 4, are used for rating the company on its earning power, current and prospective.

INDUSTRY	COMPANY
A—Active, further progress indicated.	1—Good earning power; substantial gains indicated.
B—Active, further progress may be slow.	2—Improvement in earnings expected.
C—Depressed, prospect for recovery favorable.	3—Gain in earning power may be slow.
D—Depressed, no nearby improvement indicated.	4—Earnings outlook unfavorable.

Equipment Prospects Vary

Machine Tools and Electrical Equipments in Best Position

Although the recovery trend is most firmly established, and furthest along, in industries catering directly to the consuming public, some capital goods industries are getting the benefit of considerable indirect stimulation. Moreover, some are directly helped by armament spending and in several there is a special growth factor permitting a degree of recovery out of line with the trend of our aggregate volume in capital goods. In the important machinery and equipment industries, the best prospect appears to be for machine tools and electrical equipment with the picture for farm and railroad equipment less clear.

Orders flowing into manufacturing industries began a strong upturn in May, as shown by composite data collected by the National Industrial Conference Board; and there is ample evidence that the best situated equipment manufacturers were in the vanguard of this movement. For instance, machine tool orders in May were 41% higher than in April. Reports on June orders from such leading companies as General Elec-

tric, Westinghouse Electric and National Cash Register showed a continuation of the May improvement which can be safely taken as fairly representative of conditions in the general field of equipment or certainly of the better situated divisions thereof.

Machine tool demand in May was the highest for any month in twenty years, with the exceptions of December, 1936, and April, 1937. No doubt this reflected a strong export demand incident to foreign armament programs, especially that of Great Britain, as well as considerable business growing out of our own armament program. That is far from the whole story, however, as the phenomenal performance of this industry as early as 1936—before our re-armament program was launched and when British armament spending was less than one-third of its present volume—clearly reflected a special growth factor other than armaments. The answer probably is pressure felt by manufacturers to trim unit producing costs as far as possible in the effort to balance cost-raising tendencies of Federal tax and labor policies in recent years. Despite cyclical variations, this force will continue for a long time to come; and there is still an enormous accumulated obsolescense in existing machine tool facilities to be made up in future.

It is not surprising that industrial demand for machinery centers mostly on equipment which will pay for itself over a fairly short time in cost savings, and which involves no major investment outlay. The makers of heavy machinery are nowhere near the domestic volume of 1936-1937, when construction of new steel mills was a dynamic stimulus, although foreign business is fairly good.

In electrical equipment recent weeks have continued the improvement in demand begun around late April. On the basis of indications for June, Westinghouse bookings in the first half of this year appear to have been some 30% higher than a year ago, while the gain for General Electric is placed at approximately 32%. In this field revival in household equipment demand is setting the pace, although capital goods lines are also showing an upturn. The industry still has some long-term growth ahead of it and the

Position of Leading Equipment Stocks

Machinery and Electrical Equipment

Company	Earned Per Share 1938	Earned Per Share 1st half 1939E	Price Range 1939 High-Low	Recent Price	Dividend	Market Rating	COMMENT
Allis-Chalmers....	1.44	.40(f)	48⅜-28	38	1.50(g)	A-2	Continuance of present 25c quarterly dividends expected, with possible later enlargement.
*Am. Mach. & Fdy.	.89	.50	15¾-11	13	.80	B-3	Slightly wider divd. coverage indicated.
Babcock & Wilcox	d4.60	def.	29½-14	21	.08⅓ (g)	A-2	Losses tapering off and may soon disappear, but dividends not in immediate prospect.
Black & Decker...	.76(k)	1.00(k)	22⅛-14	19	.50(g)	B-2	Sales in June quarter 30% above year ago; dividends should grow.
Bliss, E. W.......	.01	def.	17¼-8	10	....	B-2	Trend is improving, but dividends unlikely.
Bucyrus-Erie......	.20	.15	15⅛-7	9	....	A-2	Earnings up slightly; further gains needed to bring dividends.
Bullard..........	d.08	NF	30-16	22	.25(g)	B-2	Recovering profits should bring divd.s, possibly before year-end.
Caterpillar Tractor.	1.41	1.08A	55-38½	45	2.00(g)	B-2	Dividends will probably equal last year's and should be earned.
Chgo. Pneu. Tool..	.16	.05	20¼-10	14	....	B-3	No important gains in first half but comparisons should improve.
Cutler Hammer...	d.46	.36A	24½-13⅝	19	....	C-2	Red figures have finally turned to black; dividends dependent on continuence.
Elec. Stor. Bat....	1.04	NF	30⅝-23½	29	2.00	C-2	With volume considerably higher earnings are growing and dividends should continue.
Ex-Cell-O Corp...	1.11	.38(f)	24½-14¼	20	.60(g)	B-2	1939 divs. may exceed last year's.
Fairbanks Morse..	.83	NF	43⅞-24	33	.25(g)	A-2	Dividends passed a year ago may be resumed this year; profits up.
Food Machinery..	1.55(k)	.76(l) A	35⅜-21	33	1.00	B-2	Steady dividends expected with earnings turning upward.
Foster Wheeler...	.18	.10	29¾-14¼	20	....	B-2	No dividends in prospect for near future.
†General Electric..	.96	.57A	44⅝-31	39	.90(g)	C-2	Orders continue good, earnings show some lag. Dividends may increase.
Ingersoll Rand....	5.20	NF	119-86	106	5.50(g)	A-2	Payments this year should equal last year's; will probably be fully earned.
Link Belt........	1.33	.22(f)	47-31½	37	1.25(g)	B-2	Favorable industrial trend should enlarge profits in second half; dividends will hold.
Mesta Machine...	2.91	NF	39¼-25	32	3.00(g)	B-2	Dividend rate recently cut to 25c quarterly, but extras may be paid later.
Monarch Mach. Tool..........	2.14	1.16A	23-14⅝	20	1.25(g)	B-2	Earnings and dividends headed moderately higher.
†Myers (F. E. & Bro.)	4.11(j)	1.86(m)	51-45	49	3.00	A-2	Small extra paid in 1938 should be repeated or enlarged.
Nat'l Acme......	.37	.22A	15⅞-9½	12	.25(g)	B-2	Another year-end dividend will depend on motor industry.
Nat'l Supply.....	d.79	def.	15½-6½	9	....	B-3	Profits may be restored in second half, but dividends unlikely.
Niles-Bement-Pond	4.88	NF	64½-41¾	55	2.00	B-2	Regular rate should continue. Paid extra in United Aircraft stock.
Square D.........	1.17	.89A	30½-18½	29	.75(g)	C-2	1939 dividends should exceed last year's.
United Eng. & Fdy.	3.32	NF	33¼-25¾	30	2.50(g)	A-2	Foreign business supporting regular $2 dividend rate.
Van Norman Mach. Tool....	3.41	1.39	28-20	23	1.80(g)	B-2	1939 earnings shown for 24 weeks; below year ago but should gain.
Walworth........	d.99	def.(f)	9¼-4	6	....	A-3	Loss in first quarter followed by some improvement. No divds.
Wayne Pump....	3.68(n)	1.41(0)	32¾-20½	26	2.50(g)	B-3	Regular $2 dividend rate should be maintained, with extra possible.
†West Elec. & Mfg.	3.38	2.37A	120-82½	110	2.50(g)	C-2	Continued gains in bookings will mean jump in earnings and dvds.
Weston Elec. Instr.	.71	.24(f)	20⅝-10½	17	.50(g)	C-2	Year-end dividend expected later and should equal last year's.
Worthington Pump	d2.36	def.	23⅛-10½	16	....	A-3	Operations and earnings improving, but common dividends not imminent.

cyclical prospect, barring temporary war shock, appears definitely favorable.

Business equipment makers carried over a considerable volume of orders into the early part of 1938 and felt the effect of the slump most keenly some time after it had become apparent in other lines. First quarter comparisons this year were therefore handicapped, and though orders have picked up earnings are still under the influence of the time lag normal in the industry. Gains should be clearer in the latter half of the year and should support dividend policies fully as generous as a year ago. Foreign business is important, however, and dependent on European peace.

The demand for railroad equipment has been disappointing over recent months. Orders for locomotives and freight cars to date in 1939 are far above those of a year earlier, but still below levels which can be considered either normal or profitable for the majority of builders. Parts and equipment going into maintenance are making a better showing, and it is noticeable that the trend toward building cars in the roads' own shops is continuing. Starting with the current month railroads will undoubtedly devote a larger proportion of their increases in gross to maintenance and renewal of equipment, but the pickup in revenues must continue for some time before it can restore the former earning power of equipment builders. Dividends in 1939 are likely to continue small and scattering.

Farm income for 1939 is now estimated at $8.1 billion, or about 1% higher than in 1938. The cause of the increase despite lower prices for agricultural products is the Government contribution in the form of benefit payments. The competitive situation is perhaps tenser than usual in a highly competitive industry because of the current drives for low-priced tractor business. A year ago, however, the price structure was none too satisfactory and the outlook now is at least for stability. Sales of machinery have now definitely established a better trend than a year earlier, but since fiscal years in this business end generally in October, neither profits nor dividends are expected to grow substantially in the current period. Longer range outlook is more favorable.

Position of Leading Equipment Stocks

Company	Earned Per Share 1938	Earned Per Share 1st half 1939E	Price Range 1939 High-Low	Recent Price	Dividend	Market Rating	COMMENT
Business							
Addressograph-Multigraph	1.20	.80	27½-19¼	21	1.40	B-3	Second quarter better than first, 35c quarterly dividends reasonably secure.
Burroughs Adding.	.54	.40	18¾-11	14	.50(g)	B-3	Second half should improve over year ago. 10c quarterly dividends may be supplemented later.
★*Int'l Bus. Mach.	10.63	5.25	195¾-155	186	6.00	B-3	Profits rising, dividends will continue generous. Extras in stock.
Nat'l Cash Register	1.47	.73A	26¼-16⅛	20	1.00	B-3	Earnings sustained despite threats to foreign income.
Remington-Rand	2.36(a)	.59(a)	17⅛-10¼	12	.90(g)	B-3	Dividends dependent on domestic and foreign pickup.
★Royal Typew.	4.70(b)	5.50(b)	71-45	56	3.00	B-3	Coverage of dividend increasing gradually.
Telautograph	.51	.15	6¼-4½	5	.50(g)	B-3	Earnings have not yet reversed downtrend.
Underwood-E-F.	2.41	1.17A	66-44	51	2.50(g)	B-3	Second half should widen dividend coverage over year ago.
Railroad							
Am. Brake Shoe	1.03	1.01A	54½-31¾	41	1.00	C-2	Earnings running more than double year ago, 25c quarterly dividend dependable.
Am. Car & Fdry	d2.12(c)	d6.15(c)	35-17½	24	....	C-2	No dividends until railroad buying restores profits.
Am. Locomotive	d4.90	NF	30⅜-14⅜	20	....	C-2	Despite some gains in volume, first quarter was in red. Dividends not imminent.
Am. Steel Fdries.	d1.47	d .09(f)	41-20¼	28	.25(g)	C-2	Loss sharply reduced in first half, but no dividends expected.
Baldwin Loco.	d1.09	d1.53(f)	17⅜-9¼	13	....	C-2	Orders have been running ahead of year ago; no dividends near.
Gen. Am. Trans	2.91	.52(f)	60½-40	52	2.25(g)	C-2	Dividends will probably equal last year's, though first quarter profits lower.
Gen. Ry. Signal	d.85	d.33(f)	28-14	19	.50(g)	C-2	Dividends problematical until rail buying picks up.
Lima Locomotive	d3.26	NF	40½-21	30	....	C-2	Profits on small capitalization can grow rapidly when sales recover.
Nat'l Malleable	d2.87	.66A	27¼-14¼	20	....	C-2	Pickup under way may bring dividends later in year.
N. Y. Air Brake	d.66	1.00	47¼-27	41	.25(g)	C-2	Improving business brings better prospect for dividends. Recently declared 50c.
Poor & Co. "B"	d1.22	.50	16¾-8	11	....	C-2	Arrears on Class "A" preclude dividends for "B" stock.
Pressed Steel Car.	d3.06	d.62(f)	14⅝-6¼	9	....	C-2	No dividends this year, although trend is toward breakeven point.
Pullman	.60	.20(f)	39⅜-23	30	1.37½ (g)	C-2	25c quarterly dividends should continue and may be earned in full.
Superheater	.51	.20(f)	38½-22	26	.62½ (g)	C-2	First quarter profits double small earnings of year ago.
Symington-Gould, W. W.	1.29(i)	def(i)	10⅜-4⅝	6	.25(g)	C-3	April quarter showed loss of 3c against 31c loss a year earlier.
Union Tank Car.	1.16	NF	23⅝-20⅛	21	1.30(g)	C-2	30c quarterly dividends should be covered this year.
West. Air Brake	.32	.25	31¾-18⅛	24	1.01(g)	C-2	Earnings will probably cover current 12½c quarterly dividends.
Youngs. St. Door	.07	.30	31¼-17	23	.25(h)	C-2	25c payment in June encouraging; earnings for half up considerably.
Agricultural							
J. I. Case	8.89(j)	NF	94½-66	77	5.00(g)	B-3	Dividend expected before end of October, but may be smaller than last year's $5.
Deere & Co.	2.43(j)	2.40(j)	24 -15¾	21	1.35(g)	B-3	Duplicate of 1938 payment likely, as earnings are at similar levels.
†Int'l Harvester	3.00(j)	3.00(j)	66⅝-48	58	2.15(g)	B-3	40c quarterly dividends may be added to in the fall.
Minn.-Moline	.12(j)	NF	6⅜-3½	4	....	B-3	Large accumulations on preferred bar common dividends.
Oliver Farm	.18	NF	30-15½	21	....	B-3	Despite stronger quick assets, dividends are not imminent.

NF—Not available. E—Estimated. A—Actual. (a)—Year ending March. (b)—Year ending July. (c)—Year ending April. d—Deficit. (f)—March quarter. (g)—Paid in 1938. (h)—Paid this year. (i)—Year ending January. (j)—Year ending October. (k)—Year ending September. (l)—6 months to March. (m)—6 months to April. (n)—Year ending November. (o)—6 months to May.
★Safe Income. †—Cyclical appreciation. *—Substantial divds. over 10 year period.

Position of Leading Railroad Stocks

The major factor in the outlook for the railroad industry over the next six months is the probable traffic volume, an obvious conclusion, but justified in order to emphasize the fact that many of the carriers' problems with which they have long struggled would be substantially mitigated with any recovery in freight traffic to more normal proportions. Carloadings in the final week of June reached a new 1939 peak. The favorable implications of the June showing, however, are somewhat modified by the fact that a heavy concentration of winter wheat shipments occurred in that month. Also there was some rebound from the sharp contraction resulting from the six weeks' tie-up in bituminous coal production. Nevertheless, Class I carriers had a small aggregate profit in June and third quarter prospects are definitely promising.

More significant than the gain in traffic and revenues is the fact that so far this year operating expenses have increased only about a third as much as the gain in gross earnings. Maintenance outlays in recent months have been considerably more generous, but many roads are still in a position to carry a large portion of any increase in gross to net. Financial results for the third quarter will show a substantial improvement over a year ago, but fourth quarter results will have to stand comparison with the sharp gains and revenues registered in the closing three months of 1938.

The legislative prospects for railroads are the least promising aspect of the near term outlook, and carriers' hopes of any progress by the present Congress toward relieving the railroad situation have been dimmed. Progress likewise toward the reorganization of financially distressed roads is conspicuous by its absence. The difficulty appears to lie in reconciling the conflicting interests of too many factions.

With most roads considering themselves fortunate to earn their fixed charges, the railroad industry is in the least satisfactory position from the standpoint of either current or prospective dividends.

Company	Earned Per Share 1938	Earned Per Share 1st half 1939E	Price Range 1939 High-Low	Recent Price	Dividend	Market Rating	COMMENT
Atchison	0.83	d	42⅞-23½	30	....	C-3	Earned about 50 cents for common 12 mos. to June 30. Div. prospects uncertain.
Atlantic Coast Line	d2.27	1.20	30⅛-15	20	....	C-3	Longer term prospects favorable. May pay dividend this year.
Balt. & Ohio	d6.04	d	8¾-4⅜	5½	....	C-3	Passage of Chandler bill would aid appreciably. Gross up.
Bangor & Aroostook	0.34	3.50	30½-19	24	2.50	C-3	Outlook only moderately better. Finances sound.
Canadian Pacific	d0.32	d	6¼-3½	4	....	C-3	Some improvement in current earnings forecast.
Cent. R. R. of N. J.	d15.54	d	9½-3¾	5	....	C-4	Outlook doubtful. Readjustment plan proposed.
*Chesapeake & Ohio	2.62	0.67(ac)	40⅛-27	35	2.00	C-2	Substantial improvement in later earnings indicated. Divs. secure
St. Paul	d20.41	d	½-¼	⅜	....	C-4	Reorganization unlikely in near future. Position of shares dubious.
Chic. Gt. Western	d6.61	....	⅝-¼	½	....	C-4	Reorganization may be completed this year. Position of shares poor.
Chic. & Northw.	d10.63	d	1-⅜	½	....	C-4	Proposed reorganization would eliminate present stock.
Chic., R. I. & Pac.	d20.12	d	¾-¼	⅜	....	C-4	Ultimate reorganization will necessarily be very drastic.
Colo. & Southern	d5.36	d	7-3	4	....	C-4	Revenues rising but fail to cover expenses. Finances fair.
Delaware & Hudson Co.	d10.54	d	25¼-12½	18	....	C-3	Railway operations slightly better this year. Divs. doubtful.
Del. Lack. & West.	d2.34	d	8¼-4	5	....	C-3	Has failed to earn charges in past seven years.
Erie	d8.82	d	2⅜-1¼	1⅜	....	C-3	Final reorganization will probably eliminate stock.
Great Northern	1.09	d	31¼-16¼	27	....	C-3	May earn $3 a share in '39. Finances good.
Illinois Central	0.08	d	20¾-9¾	13	....	C-2	Prospects good; shares have speculative promise.
Kansas City Sou.	d1.64	Nil	11½-5⅛	8	....	C-3	Current earnings running about on par with last year.
Lehigh Valley	d2.71	d	5⅝-2⅛	4	....	C-4	Outlook very uncertain. Slight hope for common.
Louisville & Nashville	2.31	1.00	58-36½	52	2.25(a)	C-2	Paid $4 in '38. Current divs. may equal last year's.
Missouri-Kansas-Texas	d10.53	d	2⅜-1⅛	1⅜	....	C-3	Neither stock issue likely to show earnings for some time.
Missouri Pacific	d22.16	d	1-⅜	⅜	....	C-4	Reorganization not an early prospect.
New York Central	d3.13	d	22⅜-12⅜	16	....	C-2	Current losses substantially lower than a year ago.
N. Y. Chic. & St. Louis	d9.55	Nil	23½-10⅛	17	....	C-2	Current earnings upturn impressive. Will show good results for preferred shares.
N. Y., N. H. & Hartford	d9.58	d	1¼-½	⅝	....	C-4	Any reorganization likely to leave little or nothing for stocks.
*Norfolk & West.	13.58	5.10	195⅛-168	192	10.00	C-2	Will pay at least $10 in '39.
Northern Pacific	d1.74	d	14¾-7	10	....	C-2	Prospects favor gradual improvement. Divs. not imminent.
Pennsylvania	0.84	0.20	24⅜-15¾	19	0.50(b)	C-2	Recent gains impressive. Year-end div. likely.
Pere Marquette	d7.64	d	17-7⅝	12	....	C-2	Revenues higher in response to large auto shipments.
Reading	0.35	0.10	18⅜-10¼	13	1.00	C-2	Will probably maintain present dividend rate.
Southern Pacific	d1.81	d	21⅝-10½	15	....	C-2	Full year's results likely to be substantially in the black.
Southern Railway	d2.69	Nil	23¼-11⅛	18	....	C-2	Fixed charges covered in first 5 mos. Outlook good.
*Union Pacific	6.62	1.90	104-81½	100	6.00	C-2	Continuation of present $6 div. likely.
Western Maryland	d1.94	d	4⅛-2⅜	3	....	C-3	Finances good; prospects fair.

(a)—Paid this year. (ac)—Actual earnings. (b)—Paid in 1938. (d)—Deficit. (E)—Estimated.
*—Substantial dividends over 10-year period.

Position of Leading Public Utility Stocks

RECOVERING sharply from the temporary setback caused by the stoppage of bituminous coal production, output of electric power for the week ended July 15, rose to the highest level for 1939 and the figure of 2,324,181,000 was the third highest on record. It is confidently expected that before the end of the summer power output will have set a new high record.

In terms of earnings, this prospect augurs favorably for an increase of from 10 to 15% in the net income of the electric power industry as a whole. Net income in the first quarter was about 8% higher than a year ago and the expectations are that the gain in the second quarter will exceed 15%. Last year power output began to turn upward the second week in June and continued to rise steadily throughout the third and fourth quarter. It is probable, therefore, that the percentage of comparative gains this year will tend to narrow during the final six months.

Aside from the rising consumption of electric energy, earnings of the industry will be additionally favored by the substantial savings which many companies have been able to effect in fixed charges. The utility industry has been in the van of large-scale refunding operations over the past several years, taking advantage of low interest rates to retire high coupon bonds. Even more important are the well defined indications that the six-years' war between the Administration and the utility industry has at least reached an armistice. Particularly significant was the elimination by Congress of provisions in the emergency relief appropriation act of 1939 for the granting of loans for the construction of public projects in competition with existing industries, except for municipal power plants in communities not adequately served at "reasonable rates." Congress has also placed definite financial limitations on T V A. Similar limitations may be placed on other Government power projects.

Company	Earned Per Share 1938	1st 6 mos. 1939	Price Range 1939 High	Low	Recent Price	Dividend	Market Rating	COMMENT
Amer. & For. Power	d8.66	d8.64(b)	3⅝	2	2½	....	B-3	Outlook improving but common divs. remote.
*Amer. Gas & Elec.	2.23	2.33(c)	40⅞	31	38	1.60	B-2	Refunding operations result in large savings. Divs. secure.
Amer. Lgt. & Trac.	1.47	1.57(c)	18	13	17	1.20	B-2	Further earnings gains likely. Div. coverage fair.
Amer. Pwr. & Lgt.	d0.08	0.13(e)	7	3⅝	5	....	B-3	Earnings currently better. Pfd. divs. covered.
*Amer. Tel & Tel.	8.16	8.99(c)	170⅛	148	166	9.00	B-2	Connections and earnings up. No early change in dividends.
Amer. Water Works	0.38	0.48(b)	14⅝	8⅛	11	....	B-3	Earnings rising but common dividends not imminent.
Brooklyn Union Gas	2.25	1.70(e)	25⅜	13⅝	26	0.25(a)	B-2	Economies aid earnings. May pay another small dividend.
Columbia Gas & Electric	0.31	0.39(b)	9	5¼	7	....	B-3	Outcome under Public Utility Act still uncertain. Divs. remote.
*Commonwealth Edison	2.37	1.35(e)	30⅝	25⅝	30	1.60	B-2	Large scale bond conversion under way. Dividends secure.
Commonwealth Southern	0.09	0.15(c)	2⅛	1¼	1½	....	B-3	More restricted activities by TVA enhance prospects.
*Cons. Edison	2.17	2.07(b)	35	27	33	2.00	B-2	Higher depreciation cuts net. Dividends fairly safe.
*Cons. Gas of Balti.	4.06	4.33(c)	80¾	71	80	3.60	B-2	Earnings up moderately. No change in dividends.
*Detroit Edison	6.16	7.54	123½	103	122	5.00(a)	B-2	Will probably pay at least $6 on common.
Elec. Bond & Share	0.18	0.17(b)	12⅞	6⅜	9	....	B-3	Faces drastic revamping under P. U. Act.
Elec. Pwr. & Lgt.	d0.30	d0.37(c)	12⅜	6¼	9	....	B-3	Common dividends remote.
Fed. Lgt. & Trac	1.98sc	2.28(b)	16⅜	11	16	0.25(f)	B-2	Earnings up but dividends will continue modest.
Int'l Tel. & Tel	1.10	0.35(e)	9⅝	5⅜	6	....	B-3	Foreign currency depreciation cuts current net.
Laclede Gas Lgt	d3.28	d3.48	13½	7	10	....	B-3	Common prospects dubious.
Louisville Gas & Electric "A"	1.99	2.15(c)	20½	15¾	19	1.50	B-3	Continuation of $1.50 dividends expected.
Nat. Pwr. & Lgt.	1.28	1.15(c)	9⅜	6¾	9	0.60	B-2	May undertake large scale refunding. Could pay more.
Niagara-Hudson Power	0.50	0.53(b)	9¼	5¾	7	0.25(f)	B-2	Current dividends should equal 1938 rate.
★North American	1.55	1.61(b)	26⅜	18⅝	24	1.20	B-2	Should pay at least 1.20 this year.
*Pac. Gas & Elec.	2.48	2.53(b)	34¾	27½	33	2.00	B-3	Dividends secure despite recent rate reductions.
★Pacific Lighting	4.18	4.79(b)	49½	41	49	3.00	B-3	Earnings would support an extra dividend.
Peoples Gas, Lgt. & Coke	2.48	2.95(b)	40⅝	30½	37	2.00(a)	B-2	Current dividends may total $2.50.
*Pub. Serv. of N. J.	2.34	2.66(c)	39⅜	31⅛	39	1.85(a)	B-3	Should pay at least $2.40.
*So. Calif. Edison	2.11	0.99(e)	29	23⅛	28	1.37½(a)	B-2	Will probably continue to pay extras.
Stand. Gas & Elec.	d2.26	....	4¼	2½	3	....	B-4	Net in March quarter gained sharply.
United Gas	d0.51	d0.59(c)	3⅜	1⅝	2	....	B-3	Heavy preferred areas cloud common prospects.
United Gas Impr.	0.99	1.00(b)	13¼	11	13	1.00	B-3	Dividends likely to be continued despite small margin.
United Lgt. & Pwr. "A"	d0.15	d0.03(c)	3	1¼	1½	....	B-4	Drastic reorganization likely.
Western Union	d1.57	....	26⅞	16⅞	26	....	B-3	5 mos. loss lower this year than in '38. Dividends unlikely.

(a)—Paid this year. (b)—12 mos. to March 31. (c)—12 mos. to May 31. (d)—Deficit. (e)—Estimated. (f)—Paid 1938. sc—Year ended Sept. 30. ★Safe Income. *—Substantial cash dividends over 10-year period.

Most of the dividend-paying common stocks in the utility group are accorded a comfortable margin of safety by indicated earnings. In some instances a moderate increase in the present rate, or year-end extras would be warranted. Among the common stocks of operating units are a number of attractive candidates where investment emphasis is on income.

Aircraft Output and Earnings Up

The first six months of the current year were the most active in the history of the domestic aircraft manufacturing industry. Entering 1939 with a large backlog of unfilled orders, practically all of the leading manufacturers have stepped up production and recent estimates place the value of total output in the first half year at upwards of $80,000,000, a gain of about 11 per cent over the same months a year ago. The increase over the final six months of 1938 was even more impressive, amounting to more than 40%. Heavy deliveries against large export orders will accelerate activity in the last half year, with gains in output running between 25 and 30% over the first six months. For the full year the net gain in the value of production of airplanes, motors, and parts may exceed 40%.

Heavy export business has been a timely factor in sustaining aircraft production, until the greater force of the proposed enlargement of the Army and Navy Air Corps becomes effective. All signs point to sustained activity in all branches of the aircraft industry for some time to come, with the bulk of the business deriving from national defense preparations, both here and aboard. Moreover, there appears to be a growing disposition both on the part of Congress and Army and Navy officials to favor some modification in the present restrictions governing the awarding of aircraft contracts, with a view to expediting actual production of new planes. Mounting production promises to be accompanied by larger profit margins and increased earnings, with experimental costs bulking smaller in relation to total revenues. Increasing plant efficiency also promises to be an important factor in earnings, as leading manufacturers find it possible to introduce mass production methods. Meanwhile, companies doing a large export business will continue to be favored by the wider profit margins obtainable on this business.

With the industry as a whole setting new records, the showing of individual companies will, however, be at some variance with the general trend. Some companies appear certain to show the largest earnings in their history; others will be less favored, depending upon contracts, productions schedules, costs, etc. In some instances dividends this year will be larger, although here also working capital considerations may necessitate moderate payments or deferred action for some further time.

With the assistance of record-breaking passenger traffic in June, air transportation, for the first time in history may show a small profit for the first half of this year. Some companies, however, will still be "in the red," but substantially less so than a year ago. From the standpoint of dividend prospects, this is the least promising division of the aviation industry, but, significantly, traffic is expanding and progress is being very definitely made in the right direction.

Position of Leading Aircraft and Aviation Stocks

Company	Earned Per Share 1938	Earned Per Share 1st 6 mos. 1939 (E)	Price Range 1939 High	Price Range 1939 Low	Recent Price	Dividend	Market Rating	COMMENT
American Airlines	0.73	0.40	36	16¾	36	....	A-3	Showing strong competitive gains. Current earnings will be higher.
Bell Aircraft	0.33	0.50	36½	19¼	23	....	A-2	Current orders tripled. Earnings would justify an early dividend.
Bellanca Aircraft	0.99	NF	10⅞	5¾	8	0.40(a)	A-2	Will probably pay another dividend at year-end.
Boeing Airplane	d0.77	NF	34¾	17⅝	25	....	A-2	Backlog down about $4,000,000 since beginning of year. Dividends likely to be deferred.
Consolidated Aircraft	2.55	NF	25½	17	21	1.00(a)	A-2	Current earnings may be moderately lower, but company may pay year-end dividend.
†Curtiss-Wright	0.17	0.35	7½	4½	6	....	A-1	Backlog largest in history. Further class A divs. likely.
†Douglas	3.76(c)	2.50(e)	78⅝	56	74	3.00(a)	A-2	Full year's earnings will surpass '38. Will probably pay further dividends.
Eastern Air Lines	0.85	NF	19⅜	12¼	19	....	A-2	Consistently profitable transport unit. Current earnings ahead of '38.
Grumman Aircraft	1.30	NF	22⅛	14¼	16	0.25(b)	A-2	Paid divs. of 75 cents in '38. May pay more currently.
Irving Air Chute	2.02	NF	21⅝	14⅝	18	0.60(b)	A-3	Paid $1.25 in '38. Earnings would support some increase this year
†Lockheed Aircraft	0.67	0.75	36¾	22¾	28	....	A-1	Orders and deliveries currently higher. Prospects good.
†Glenn L. Martin	2.15	0.89(ac)	39⅝	27⅛	36	....	A-1	Divs. may be deferred but earnings will be substantially higher.
†North Amer. Aviation	0.55	0.80	19¾	12⅝	17	0.40(b)	A-1	Current earnings up; further divs. indicated.
Pan Amer. Airways	0.03	NF	16⅜	10⅝	14	....	A-3	Revenues higher but increased costs preclude early div. resumption.
†Sperry Corp.	2.46	1.50	47⅞	36	45	1.60	A-2	Backlog highest in history. May increase dividends.
Trans. & West Airlines	d0.93	d	11⅞	6¼	11	....	A-3	Dividends not in sight.
†United Aircraft	2.05	1.38(ac)	42⅜	33	39	0.75(b)	A-1	Current earnings at new peak. May pay $2.
United Air Lines	d0.66	d	13½	7⅞	13	....	A-3	Traffic up; current losses less. Divs. not in prospect.

NF—Not Available. (a)—Paid 1938. (ac) Actual earnings. (b)—Paid this year. (c)—Year ended Nov. 30. (d)—Deficit. (e)—Six months to May 31. (E)—Estimated. †—Attractive for cyclical appreciation.

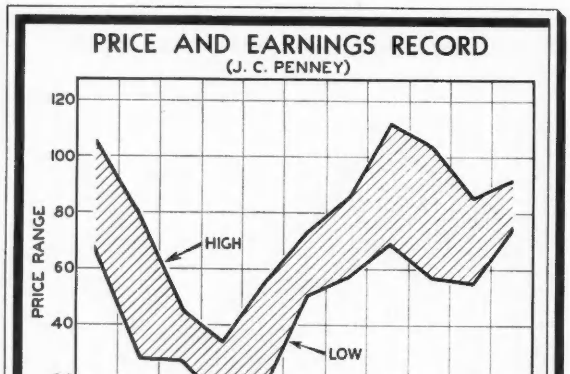
Growing Profits for Penney

The Reasons Why the Stock Is Rated "Tops", Among the Mershandising Issues, by the Market

BY STANLEY DEVLIN

CONSIDERING the nature of its business, J. C. Penney has covered quite a bit of ground marketwise. From a 1929 top of 105½, it sold down to 13 in 1932. By late 1936, however, it had bettered its former peak to reach a new high of 112½ which, though in sharp contrast with the performance of most other issues, was not altogether surprising for in that same year the company earned more than in any other in its history. All of which marks Penney pretty definitely as a "growth stock." But it is more than that; it is a reliable earner and dividend payer as well.

There is nothing very mysterious about the company's 37-year record of virtually continuous growth or the almost uninterrupted record of profits established in the process. Both stem directly from a policy of expansion composed in about equal parts of progressive merchandising, conservative finance and just plain shrewd opportunism. As it is constituted today, Penney is the outgrowth of a single-unit drygoods store which began business in a small Wyoming town just after the turn of the century. By the end of 1912, the original venture had become a chain of 34 stores and by 1924, when the company was incorporated under its present title, the number of units had grown to 571. Only one subsequent year—1933—failed to witnesses an increase in the number of stores operated by the company, and at the end of 1938 the total stood at 1,539.



Handling men's, women's and children's clothing and shoes as well as dry goods and miscellaneous lines, and emphasizing moderate prices and utility values, Penney has long concentrated its efforts in cities of less than 100,000 population. In recent years, however, it has established "metropolitan" units in such larger centers as Philadelphia, St. Louis, San Francisco, Los Angeles, Indianapolis and others, and these stores, of course, carry a greater variety and better quality of merchandise. By far the greater part of the company's total sales and earnings, however, are still derived from units located in smaller cities and it remains essentially a super-successor to the old general store of a bygone era.

Geographically, Penney is well diversified with representation in every state of the Union from Rhode Island with a single store to California with 125. To the extent that its operations are concentrated in any one area, however, the Middle West is the most important; nearly 30 per cent of the company's outlets are located in eight mid-continent states. Most of the stock carried by stores in this territory, and in others as well, is distributed from the company's main warehouse in St. Louis though warehousing facilities are also maintained in New York City. For the most part, stores are leased rather than acquired in fee, and this policy has been of considerable importance from a standpoint of operating flexibility. For though there has been a net increase almost every year for the past three decades in the number of units comprising the company's chain, it has always been the management's practice to weed out unprofitable stores

and to move others to more favorable locations as leases expire.

The bulk of the company's merchandise is manufactured to specifications and sold under Penney's own private labels. Contrary to the course followed by not a few other large retailing enterprises, Penney has steered clear of manufacturing, its activities in this direction being confined to the production of corsets and cosmetics. In so doing, it has probably foregone some manufacturing profits but it has also saved itself many headaches. Management has been left free to concentrate on problems of merchandising — a field with which it is thoroughly familiar and in which it has already demonstrated its ability —and has escaped any temptation to expand distributing facilities over-rapidly or uneconomically merely to take care of manufacturing output. The company has also escaped the bugaboo of labor troubles, typically more prevalent among manufacturing enterprises than among those engaged in retail distribution. By way of giving them a financial stake in the company, employees have been offered shares from time to time at less than prevailing market levels. Bonuses, based on individual operating results, provide additional incentive for store managers. All and all, the problem of labor costs is minimized by the flexibility of the payroll which consists in good part of bonuses and pay for part-time employment.

Penney's up-to-date Seattle store, is one of the largest in the City.

Punitive state taxation of chain stores has never proved as much of a handicap to Penney as it has, for example, to some of the big grocery chains operating a large number of units in a single state and working on extremely narrow profit margins. Like all multiple-unit organizations, however, the company stands to gain by the recent reversal in the trend of such taxation. At the end of 1938 there were 22 states, in which were located 754 of Penney's 1,539 units, with discriminatory chain levies. In recent months, however, the Supreme Courts of three of these states—Pennsylvania, Minnesota and Kentucky in which the company operates 134 units—have outlawed the imposts on grounds of unconstitutionality. Since no additional states have enacted new taxes in the past year, it is evident that the popularity of the chain store levy is on the wane. Of course the threat of a Federal tax has not been entirely eliminated and it is expected that hearings on the Patman bill will be begun soon after the opening of the next regular session of Congress. From present indications, however, it seems extremely doubtful if the measure will even reach the floor, much less be enacted into law.

But chain store taxes or no, Penney has hung up a record of earnings for other merchandising organizations to shoot at. Not only have profits exceeded the best pre-depression levels in every year since 1932, but in the peak earnings year 1936 net income was a good 50 per cent above that of 1929. Far and away the poorest year in the company's recent history was 1932 when per share results amounted to only $1.57. The following year, however, earnings recovered sharply to $5.51, rising more gradually thereafter to $7.36 in 1936. Despite a further gain in sales in 1937, net declined to the equivalent of $6.52 per share largely as a result of downward price revisions in the closing months of the year. Lower unit sales and further price reductions last year brought earnings down to $5.40 which, however, represented a smaller percentage decline than was typical among other concerns even in the relatively stable merchandising and consumer goods fields. Penney's sales for the first six months of 1939, totalling $115,654,398, were up almost 10 per cent from a year ago and actually were slightly ahead of the record first half volume of the initial six months of 1937, a peak period for general business activity and consumer buying power. It is likely that earnings were between the $1.85 per share reported a year ago and the 1937 record first half figure of $2.82, and probably closer to the latter than the former.

Dividend disbursements have been pretty much in line with earnings. Total payments last year amounted to $4.25 as compared with $5.50 the year before, a peak of $7.25 in 1937 and a low of $1.20 in 1932. Present regular annual rate is $3.00, payable in 75 cent installments the last day of each quarter. Year end extras are customary and total 1939 distributions will in all likelihood exceed those of 1938 by a substantial margin.

As of the end of last year, Penney's financial position was characteristically strong. Current liabilities of $12,804,575 were amply covered by cash alone of $19,938,748, while total current assets amounted to $69,383,796. Inventories, valued at $49,216,748, were down more than 13 per cent from year earlier levels. In reflection of the company's small amount of fixed property investment, 81 per cent of total assets were represented by current items. Capitali- (*Please turn to page* 418)

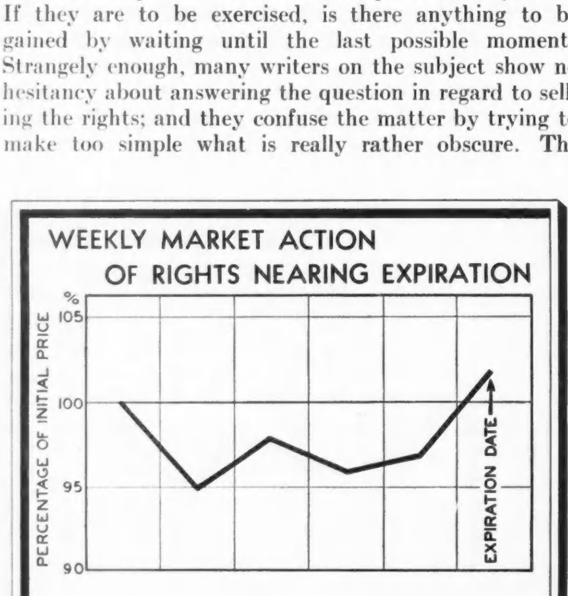
The Stockholder's Guide

— Timing Action on Subscription Rights
— Rating Stocks for Dynamic Growth

BY J. S. WILLIAMS

Two questions, one major and one minor, confront the stockholder who is given the right to subscribe to additional stock in his company at a price below the market. The big decision is whether to exercise or sell the rights. This is completely bound up with investment policy, not only in the general sense which dictates the amount of additional funds to be put into the market and the timing, but policy toward the individual holding and its size in relation to other investments. The decision will depend greatly upon the level of the market at the time as well as upon the investor's opinion of its future; it obviously cannot be made in advance of the actual circumstances.

Having settled the major question, though, the stockholder then must consider the very practical point of *when* to take the action upon which he has decided. If the decision is to sell the rights, should they be sold as soon as a market for them is established or held until near their expiration with a better price the objective? If they are to be exercised, is there anything to be gained by waiting until the last possible moment? Strangely enough, many writers on the subject show no hesitancy about answering the question in regard to selling the rights; and they confuse the matter by trying to make too simple what is really rather obscure. The actually simple and highly important question of when to exercise rights they frequently overlook.



The widely accepted advice in selling rights is to do so at the earliest possible moment. This may be when they are being traded on a when-issued basis, in which case the trade may be subject to later cancellation, or it may be on the first day of trading after issuance. The theory behind the advice is that the speculative value of the rights is at its highest when the rights have longest to run; as they near expiration their value as a call on the stock will dwindle. Since the rights actually constitute an option on the stock as a certain price good to a certain date, this seems reasonable. A six-months call on a stock is worth far more than a thirty-day call, and an option with only a day or two to run is strictly limited in speculative possibilities. To take the simplest illustration: a call at the market or just above will obviously reach the zero point in value immediately before it expires, whereas its worth may have been substantial when first issued.

The theory does not stand up in practice because almost all subscription prices today are well below the market and rights tend to sell strictly in line with the stock upon which they are a call. If the stock declines, they will also fall; if it rises they must go up too or a profitable arbitrage transaction in selling the stock and buying rights will quickly bring the two back into line. Therefore when the advice is given to sell rights at the first opportunity, the owner is actually being told that *the stock as well as the rights* is bound to or likely to decline as the subscription period goes on. This is not in accord with the facts of recent markets. It is true that the announcement of additional stock to be issued frequently affects the market for a particular stock, and the effect may go on for some time after the rights have been exercised. But the tendency is for an immediate discounting, long before any opportunity comes to sell the rights. During the subscription period the stock may be under some pressure, yet toward the very end of it, when theoretically the rights should be lowest, the pressure is likely to be lifted and a rally to carry both stock and rights somewhat higher.

The accompanying chart shows what actually hap-

pened to the value of rights issued in the past few years. Eight companies—American Smelting, American Steel Foundries, Boeing, Eastman Kodak, Industrial Rayon, Johns Manville, Sears, Roebuck and Texas Corp.—represent a good cross section without any attempt to handpick the issues, since they are the only ones in THE MAGAZINE OF WALL STREET's average of forty market leaders which have issued rights since the beginning of 1937 and which are not affected by other conversion privileges. The price of the rights when first admitted to trading has been set as the normal, or 100 per cent. Each time division across the chart represents a week of trading, during which other rights are brought into the picture always at 100, and during which variations in price are translated into percentage terms. The last point shows the average price of the rights on their expiration days in percentage of the price when trading in them began.

The conclusion is plain that rights do not tend to decline steadily, at least in current markets, and that immediate selling is not necessarily the best policy. The timing must be based on estimates of the market's near future, in the knowledge that the rights will fluctuate with the parent issue, which in turn will probably move with the general run of stocks. A simpler answer would be desirable, but misleading.

In the case of rights which are to be exercised, the answer to the timing question is much easier. Take the case of the man who has received 200 rights entitling him to buy 100 shares of stock at 100. The stock is selling at 110 and the rights at 5. He has definitely decided to use the rights to subscribe to the additional round lot of stock. If he does this immediately, his freedom to change his mind is of course gone, but he has also made an investment which is subject to all the hazards of any investment. Putting in his rights worth $1,000, together with $10,000 in cash, he has committed a total of $11,000 in the particular issue involved. The market may run into a sudden dip, war may break out, the price of the stock may break to 80, but there is nothing he can do to cancel his investment except sell at a loss. If the market rises, on the other hand, he shows an early profit.

If this investor had waited until the very last day to exercise his rights he would be sure of any profit that might accrue through a rise in the market. In case of a break his loss would be limited to the $1,000 value of his rights. He retains as long as possible his freedom of decision, keeps the possible loss at a minimum and sacrifices none of his potential profits. Whether exercising rights himself or through his broker, the stockholder should see that the action is taken as near the expiration date as is practicable.

The Growth Factor

The possibilities for future growth within an industry or a company are rarely obvious, though subject to constant gauging as investors search for the leaders of the coming years. The essential difference between an aggressive and a defensive long-term investment policy is in the stress laid on the growth issues, where the risks may be larger but where reasonably successful selection more than makes up for occasional mistakes. In the past the public used to see "dogs" in the estates of wealthy decedents, only half realizing that these were the attempts that went wrong in the process of building up a fortune. The desire to establish tax losses induces most men to sell the stocks they hold in bankrupt companies nowadays, but we may be sure that the same efforts to participate in growth are going on and that they bring the same rewards and penalties as in the old days.

Those who feel that our economy has passed the rapid stages of its expansion will find the search for growth prospects more difficult, though still worth while. More than ever it becomes necessary to shy away from the companies at the mercy of the business cycle and single out those which are either independent, going ahead in good times and bad, or which lose less than the average in slumps and gain more in the booms, thus getting their progress in spurts. Coca-Cola has been a good example of independence from the cycle, Monsanto Chemical of cyclical gains.

Unfortunately, past growth is no guaranty of a continuance, particularly if the growth has been going on for a considerable length of time. When an industry approaches maturity its largest factors must almost always be ruled out as unlikely to record spectacular progress in the future, and this obviously eliminates many attractive investment issues from the search for growth. As a practical matter, on the other hand, few investors are in a position to know of or appreciate the prospects of a company just getting its start and perhaps privately owned. The choice is therefore apt to narrow down to the smaller sized company *(Please turn to page 416)*

F. W. WOOLWORTH

Recent Price: 48 — **Dividend Rate: $2.40**

This is our regular fortnightly investment suggestion to those interested primarily in income, safety of principal and sound investment standing. Each number of the Magazine contains one such selected issue.

Founded nearly 60 years ago to exploit what was then a radical new idea in merchandising, Woolworth has grown to be the largest five and ten cent chain in the world.

The company's earnings are marked by their stability, having ranged over the past decade between a high of $4.24 in 1931 and a low of $2.32 in 1932. Last year's figure was $2.95 as compared with $3.42 the preceding year. Woolworth does not report interim earnings but sales for the first six months of 1939 were up 4.2 per cent from a year ago.

Annual dividends of $2.40 per share have been paid regularly over the past 10 years, supplemented by a $2 extra in 1931.

Financial position at the close of 1938 was strong with cash holdings alone in excess of current liabilities and the latter covered more than 6½ times by total current assets. Capital structure is simple, 9,703,610 common shares of $10 par value being preceded by $10,000,000 of 3 per cent debentures and $2,532,825 of purchase money mortgages.

General Mills

A Reliable Dividend Payer

BY HUGH SUMMERS

On November 1, 1928, common stockholders of General Mills, then just another multiple-merger product of the New Era, received an initial dividend of 75 cents a share. On February 1, 1939, after more than a decade of the wildest economic gyrations in the country's history, dividend checks to an amount of 75 cents a share were again mailed out to the company's owners—for the forty-second consecutive time. Stockholders must have been pleasantly taken aback, therefore, when, instead of the customary 75 cent payment, $1.25 was distributed last May 1st and 87½ cents was declared payable August 1st.

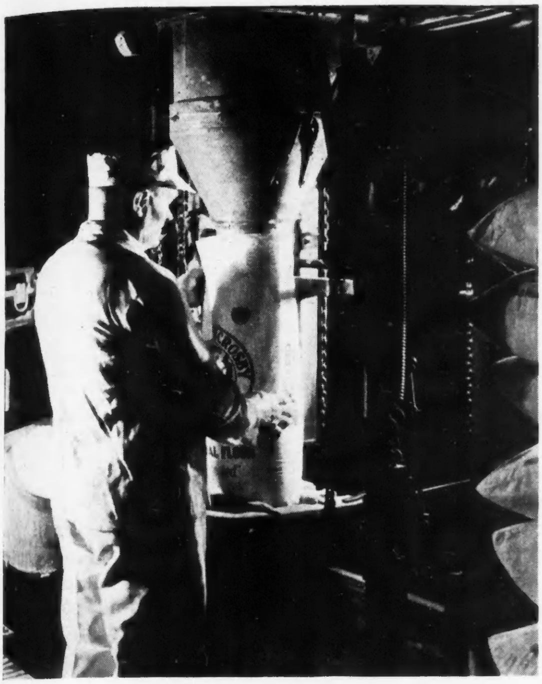
Does this mean that the company's long-standing $3.00 annual rate has been upped to $3.50? Quite possibly, for in only one year have earnings failed to exceed this amount and profits have averaged over $4 a share annuallly since 1928. It probably also means that on May 31st General Mills completed another satisfactory fiscal year. Not that earnings skyrocketed—flour milling is not that kind of a business—but flour consumption remained as stable as usual, competitive conditions were better and there was a bumper wheat crop. Also, by-product stock feed lines were aided by relative price stability and further gains were recorded in the packaged foods division. Of course, flour prices were down, perhaps enough to pull the company's dollar sales volume below the $152,700,000 total of fiscal 1938. But that is neither here nor there when it comes to profits. The latter have never shown any direct relation to sales, an anomaly that helps explain General's marked stability of earning power.

Pictures in this article by courtesy General Mills, Inc.

Rows of these cone shaped bins hold the cleaned wheat before it is ground.

Flour milling is essentially a service enterprise. Profits, therefore, represent a service charge and vary with competitive conditions and the size of the wheat crop rather than with dollar sales which fluctuate with flour prices. Since wheat and flour prices move together, and since speculative risks on grain inventories are minimized by means of hedging in the futures market, the matter of earnings is largely one of physical volume and unit margins. There are, of course, a number of other factors that influence operating results. Government subsidization of flour exports, for example, or retention by farmers of varying proportions of the crop each year for livestock feeding. As a general rule, however, the "conversion factor," or profit margin, and the size of the crop are the principal determinants of earnings.

It would be a mistake, however, to minimize the importance of management. There are over 4,000 independent milling enterprises in the United States and, while General is more than twice the size of its largest competitor, it is by no means a monopoly. Moreover, there is less business to go around then there used to be for, while flour demand is almost immune to cyclical influences and has shown little variation in recent years, annual per capita consumption is now only about ¾ of a barrel as compared with 9/10 of a barrel shortly after the war; at no time since 1930 has overall consumption equalled that of any year of the 'twenties. Also, though exports have always been small in relation to the total



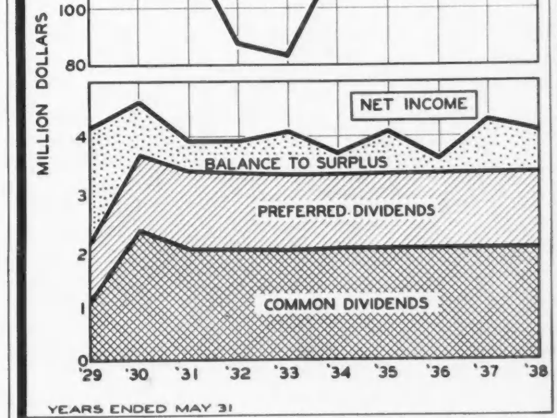
Packaging "Gold Medal Flour"

volume of flour sales, the domestic milling industry has lost about two-thirds of its foreign market since the 'twenties due to the drive for self-sufficiency abroad and the restrictions that many nations have placed upon flour imports. In the last year or two, exports have been aided by Government subsidies and reciprocal trade treaties but are still far below the levels of a decade ago.

These factors have brought into operation the old law of survival of the fittest and General Mills has met the situation by progressive management. Take the matters of merchandising and sales promotion. The wide acceptance enjoyed by the company's family and bakers' flours, the best known of which are "Gold Metal Kitchen Tested," "Red Star," "Rex" and "Crosby's Best," did not just happen. Well conceived merchandising and advertising activities, based on extensive research, were largely responsible. The same is true of the company's packaged foods, including "Wheaties," "Bisquick," "Softasilk" cake flour and the relatively new "Corn Kix," and its commercial feeds, marketed under the "Larro," 'Gold Medal" and "Sperry" trade names. General Mills sales promotion activities, which run the gamut from working out and testing its own radio advertising to the operation of a baker's school, place it among the most aggressive marketing organizations in the field. Actual distribution to the baking trade, chain stores and jobbers is handled by an extensive sales organization, while more than 100 owned "farm service" stores sell feeds and flour throughout rural areas of the country.

But, as in any business, the sales manager's success is largely dependent on how well the production manager's job is handled. Here again the company is "on its toes." In the first place, its 31 mills (daily capacity—78,850 barrels of flour, 6,120 tons of commercial feeds and 822,000 pounds of cereals) are strategically located with respect to both raw material sources and principal consuming areas. Moreover, the decentralization of operations throughout 22 cities and 16 states makes for independence of crop conditions in any one producing area and ready access to the characteristic wheats of the major producing regions—the hard winter grain of the Southwest, going mainly into bread flour; the soft winter wheat of the Midwest, used for biscuit and pastry flours; durum and hard spring wheat grown in Montana, Minnesota and the Dakotas, and used for making spaghetti and macaroni and for bread flour; and the white wheat of the Pacific Coast, ingredient of cracker and pastry flours.

Actual production or processing operations are chiefly characterized by their high degree of mechanization (wages amount to less than 5 per cent of total value of finished products; the company's labor relations have been notably satisfactory) and by the amount of research and experimental work that is involved. Modern flour is a blend of various grades of wheat in numerous mixtures. The selection of grain to be mixed in the production of flours of specific qualities is an important function and chemistry plays a major role in determining the mix. Each new wheat crop presents a new set of problems which must be solved before the crop can be ground satisfactorily. Hence, the company's experimental farm, its wheat surveys, and its testing laboratories at all divisional mills which report their findings to the correlating laboratory of the products control department at Minneapolis; hence, also, the experimental mill where regulation and improvement of flour quality are subjects of constant study and where innovations in milling machinery are tried out before being installed in any of the commercial plants. At every step along the long milling process itself, from the weighing and grading of the wheat at the elevators through the cleaning, grinding and sifting operations, chemistry continues to play an important part in controlling gluten, ash and moisture content and in *(Please turn to page 416)*



For Profit and Income

Competition in Tractors

When Allis-Chalmers stole a march on the rest of the low-priced tractor field in 1937 with the introduction of its all-purpose wheel-type machine priced at $495, it undoubtedly knew that it would not long have the market to itself. For in the farm equipment business, competition is traditionally such to make that in other fields look like a Class Day potato race at a young ladies seminary. By way of maintaining the tradition, Ford recently stepped in with a $585 tractor featuring such new wrinkles as a mechanism which holds the plow at any desired depth regardless of soil or surface irregularities and a safety device whereby the tractor slips its back wheel drive when the plow strikes an obstruction, thus eliminating the danger of rearing and toppling over backwards on the driver. Even more recently, International Harvester has entered the race with its rubber tired "Farmall-A" at $515 which has the engine on the left and driver's seat on the right, a sales point that Harvester will talk up as "Culti-Vision." Only other producer now represented in the $500 price class is Deere, but Case is understood to be working on a new low priced job and Ford may be out with another and cheaper model shortly. At any rate, all signs point to plenty of competitive fireworks when the fall selling season opens.

Deep plowing on rough ground with the new light-weight Ford tractor.

New Industry Appears

While it's still pretty small potatoes in terms of dollars and cents, the domestic potash industry has advanced by leaps and bounds in recent years. Output of this important fertilizer base last year amounted to 286,437 short tons as compared with 266,938 in 1937 and only 57,540 in 1929. Biggest unit in the field is American Potash and Chemical which earned a record $5 per share last year and is currently selling on the Curb close to its all-time high of 70. This concern, together with U. S. Potash Co. of America, accounts for almost all domestic output though International Agricultural has recently gotten into production and may be an increasingly important factor from here on. However, competition from domestic sources will probably be limited for some time as most potash land in this country is Federal property and the Government, for reasons of production control, is issuing no new prospecting licenses at present though it is interested in seeing the United States become independent of foreign sources of supply which are controlled mainly by Germany. In order to do so, American producers will have to about double last year's production.

Cheap Plastic

The principal factor in the marked secular growth of the chemical industry is its constant progress in the development of new products and lower cost production methods. Latest achievement is a new plastic material, cheapest yet made, of

which Marathon Paper Mills has just begun commercial production. The new plastic, manufactured from lignin extracted from pulp mill waste, may sell for as little as 5 cents a pound as compared with 15 to 50 cents for comparable materials now on the market. Rather than compete with the latter, however, it is expected that the new product will find extensive new markets hitherto closed to higher priced plastics.

New Use for Air-Conditioning

If Woodward Iron's new air-conditioned blast furnace, recently put into operation in Birmingham, Alabama, comes up to expectations, such concerns as Carrier and York Ice Machinery may well find themselves with more business than they can handle. Object of the unique installation, made by Carrier at an estimated cost of $75,000, is to improve the quality of the steel and to cut fuel costs by lowering the humidity of air blown into the furnace, thus making possible larger loads of iron ore and increased output. Difficulties arising from excessive humidity have long constituted a major problem of steel making in the South.

Rail Spending on Upgrade

With the nation's carriers applying an increasing portion of expanding gross revenues to maintenance and equipment outlays, things are looking up for the rail equipment makers. Locomotive buying for the first half of 1939 was up 100% from a year ago while freight and passenger car purchases gained 13 and 26%, respectively. Most new locomotive orders currently are for Diesels and General Motors is getting the lion's share of the business. Over the remainder of the year, freight car manufacturers seem likely to come in for the best sales gains. The A. A. R. estimates—and it has been pretty accurate in the past—that freight carloadings will be between 775,000 and 800,000 at this fall's peak which would probably mean a car shortage in some areas. As of July 1, 2,500 freight cars were under inquiry and tentative plans for the purchase of 8,000 to 10,000 more may reach the inquiry stage shortly; total first half purchases amounted to 9,077. Air brake manufacturers are also coming in for a better share of railroad expenditures as changeovers from the old K brake to the new AB type are picking up somewhat at the prompting of the safety division of the I. C. C.

Developments in Companies Recently Discussed

Aided by an excellent gain in June net, Caterpillar Tractor reported first half earnings equal, after preferred dividends, to $1.08 per common share as compared with 45 cents for the first six months of 1938. Financial position as of June 30 showed marked improvement over a year ago.

In conjunction with the offering of 20,000 shares of new $5 prior preference stock, Thompson Products reports first half net of $2.13 per share of common. For the full year 1938, the company earned $1.33.

Second quarter results of General Foods were up 30 per cent from a year ago. After preferred dividend requirements, net available for the equity stock amounted to 70 cents a share as compared with 54 cents for the June period of 1938.

Increased dividends on its holdings of General Motors, together with better returns from chemical operations, enabled du Pont to report $1.73 per common share for the second quarter of 1939. This compares with $1.55 for the preceding three months and 71 cents for the second period of 1938.

First half orders of Westinghouse Electric topped $100,000,000, indicating a gain of a little better than 30 per cent over the like 1938 period. Improvement in earnings was at a slightly better rate than the gain in bookings, first half common share net amounting to $2.37 per share against $1.68 a year earlier.

With sales of asbestos products, roofings, etc., moving up nicely on the bulge in residential building activity, earnings of Johns Manville staged a spectacular comback last quarter, amounting to $1.12 per common share as contrasted with only 10 cents in the same quarter of last year and a deficit of 1 cent for the first three months of 1939.

Continuing to show the way to other cigar makers, Bayuk reports per share earnings for the first half of 1939 of $1.75 against $1.05 a year ago. Company's sales were up 20 per cent.

Report of Lehigh Portland Cement for the 12 months ended June 30, 1939, shows net available for the common, after payments on the 4 per cent convertible preferred, equal to $1.83 per share as compared with only 39 cents earned in the preceding 12 months.

Officially estimated United Fruit net before taxes for the first half of 1939 was equivalent to $3 per common share as compared with $1.93 a year earlier. Former figure excludes earnings on German business.

Earnings of Safeway Stores climbed to $2.96 for the six months ended June 30 against $1.31 for the initial half of 1938, though results of the earlier period were penalized to the extent that an amount equal to 34 cents a share, representing loss of liquidation of unprofitable departments, was charged to operations. Sales for the four weeks ended July 8 were at the best levels of the year.

Heard Around the Street

Detroit reports: Each day of General Motors strike means one day's delay on 1940 models. Packard will get the jump on the field with a new low-priced model to be ready by mid-August. Studebaker sales are running at the best level since 1928. * * * Those close to the industry hold that the aircraft issues are 'way behind the market on basis of earnings prospects. * * * B-M-T stockholders vote August 22 on unification plan. It's in the bag according to those purported to be in the know. * * * Street was surprised by second 10-day cut-price tire sale in a month's time but trade sources say is does not presage any general wave of price slashing. * * * Export licenses granted for arms and munitions during the first six months of the year amounted to about $72,000,000, the bulk of it representing airplanes and parts. * * * Most important beneficiary of the Administration's spend-lend program, if it goes through, will be the steel industry, with building supply and electrical equipment companies next.

Stocks Selected for Profit In Next Market Upswing

Selected by THE MAGAZINE OF WALL STREET STAFF

Westvaco Chlorine Products

1939 Price Range High	Low	Recent Price	Dividend
25	15¼	24	$1

In the second quarter of this year, Westvaco Chlorine Products reported earnings equivalent to 60 cents a share for its common stock, or nearly double the results shown in the corresponding period a year ago, when net was equal to 32 cents a share. Earnings in the first quarter of this year were equivalent to 51 cents per share, indicating first half earnings equal to $1.11 per share, comparing with 62 cents per share in the first six months of 1938. Paying dividends of $1 per share annually, the company has, in the first six months, more than earned a full year's dividends.

Westvaco Chlorine Products Corp. is one of the largest electrolytic producers of chlorine and caustic soda in the country. The company supplies large quantities of these products under contract to Union Carbide for the manufacture of Prestone and other organic chemicals. Normally, Westvaco's sales to Union Carbide account for about 60 per cent of the company's total sales of these products and form a comparatively stable source of revenues. A relatively new undertaking by Westvaco is the production of magnesium oxide from residual brine from sea water. The company has the distinction of being the only one in the country producing magnesium oxide in this manner. Principal uses are for the manufacture of refractory brick for the steel industry. A subsidiary unit of Westvaco manufactures carbon bisulphide and carbon tetrachloride and phosphates, of which quantities are sold to the rayon and textile industries.

Over an extended period of time, operations of Westvaco Chlorine have shown a greater measure of stability than those of the average chemical enterprise. Being modestly capitalized, this has meant good earnings for the common stock. The company has no funded debt, capitalization consisting solely of 192,000 shares of $1.50 preferred stock and 339,362 shares of common stock. The preferred shares may be converted into one share of common stock any time until September 1, 1940.

For the full 1938 year the company reported a net profit of $803,675, equal after preferred dividends, to $1.52 a share for the common stock. Earnings for the year ended January 1, 1938, were equal to $1.46 per share for the common stock. At the end of 1938, current assets, including over $1,200,000 cash and marketable securities, amounted to $3,055,526, while current liabilities were less than $400,000. Although the common shares of Westvaco Chlorine are not a volatile issue marketwise, recent market appraisal around 24, appears to be more conservative than that usually found among representative chemical issues. In their price range, the shares combine a fair income with possibilities for some further price appreciation over the months ahead.

Eaton Mfg. Co.

1939 Price Range High	Low	Recent Price	Dividend
27⅛	15¼	25	(See text)

Notwithstanding the fact that Eaton Mfg. Co. is identified with the highly volatile automobile equipment industry, in which wide cyclical variations in earnings are the rule rather than the exception, the company has an unusually good dividend record. Dividends have been paid in every year since the company was organized in 1923. The company's earnings, to be sure, have shown the sharp fluctuations characteristic of the industry, but with the advantage of a modest capitalization and an excellent financial position, it has been able to maintain its dividend record intact.

It is engaged in the manufacture of automobile axles, springs, bumpers, valves, tappets, heaters and other accessories. Products are diversified to include both original equipment and replacement parts. During the past several years the company has expanded its activities to include the manufacture of aircraft valves and tappets, and this division of the company's activities has been operating this year at peak levels. Foreign sales have been particularly good.

Last year, as a result of the sharp decline in automobile sales, the company's profits were less than one per cent of those shown in 1937. Net of $23,154 was equivalent to only 3 cents a share on 703,646 shares of capital stock. In 1937 earnings of $2,568,960 were equivalent to $3.65 per share. Responding promptly, however, to the increased production of automobiles in the current year, the company's profits in the first quarter totaled $725,999 and were equal to $1.03 per share for the capital stock. This was a substantial improvement over the loss of some $199,000 in the March quarter of 1938.

Although shipments in the automobile industry receded somewhat in the second quarter, profits, nevertheless, were well sustained, net of $559,692 being equal to 80 cents per share, bringing total earnings for the first six months up to $1.83 per share, as against a net loss of $350,334 in the first six months of 1938.

The company's capitalization consists solely of 703,646 shares of capital stock. At the present time financial position is understood to show a current ratio of about six to one, with cash exceeding total current liabilities.

Two dividends of 50 cents each have been paid thus far in the current year, and in view of the marked improvement in earnings, as well as the continuing favorable prospects over the balance of the year, probabilities are that additional payments will be made.

At recent levels around 25, the shares appear reasonably priced in relation to indicated earnings, and commitments made during periods of general market weakness should prove speculatively profitable.

Jewel Tea Co.

1939 Price Range		Recent	
High	Low	Price	Dividend
85	68	85	$4

Jewel Tea Co. is favored by an excellent earnings background. Profits were maintained throughout the depression of the early 30's and in no year did stockholders receive dividends amounting to less than $3 per share.

Jewel Tea is a high ranking distributor of coffee, tea and other staple groceries. For the most part the distribution of the company's products is effected by means of motor routes, of which the company operated 1,550 at the end of last year. These routes serve some 6,000 communities in forty-three states and the District of Columbia. In addition, 109 self-service stores are operated in the Chicago district. The company blends, roasts and packs all of its own coffee and carries on a number of operations of a manufacturing nature. Products are sold under the company's own brand names and a laboratory is maintained in charge of skilled chemists and home economists.

The success which Jewel Tea has made in a highly competitive field may properly be attributed to the aggressive merchandising policies followed by the company's management. Business is stimulated by giving customers premiums with their first purchase of groceries and subsequent purchases result in credit against this premium until eventually it is paid for. Internally the organization is given ample encouragement through numerous special benefits in commissions, advantageous stock purchase plans and, more recently, a combined savings and profit-sharing retirement plan.

Between 1933 and 1936, Jewel Tea's profits recorded steady expansion and dividends paid to stockholders were raised proportionately. Peak earnings for recent years were shown in 1936 when net was equivalent to $6.41 a share. Despite the fact that sales gained about $2,500,000 during 1937, profits in that year, largely due to higher costs and taxes, were lowered to the equivalent of $5.19 a share. Sales again rose in 1938, but conditions beyond the control of the management resulted in somewhat higher costs and net profit totaled $1,423,959, or the equivalent of $5.09 a share. At the close of 1938 the company reported current assets of $6,047,077, including $3,630,711 cash and marketable securities, while current liabilities were less than $1,300,000. Inventory position was normal.

During 1938 the company paid dividends totaling $5 a share and thus far in the current year dividends have been maintained at the rate of $1 per share quarterly, in addition to which the company declared a special dividend from surplus of $1.

Financial reports covering current operations are not available, but the probabilities are that profits are at least on a par with those of a year ago and may possibly be somewhat better. Sales reported by the company for the twenty-four weeks to June 17th were about 2 per cent ahead of the volume a year ago.

Recently quoted around 85, the shares yield an attractive return, based on regular dividends alone. Financial position is such that the company is permitted considerable latitude in the matter of dividends and stockholders are practically assured that later payments will be adjusted upward in accordance with any increase in sales and earnings. Although the shares are primarily attractive as a dependable income producing medium, further evidence of increasing profit would doubtless justify higher quotations.

Phelps Dodge Corp.

1939 Price Range		Recent	
High	Low	Price	Dividend
44¾	28⅛	40	$1

Phelps Dodge Corp. ranks as one of the foremost domestic producers of copper. Operations of the company, however, are completely integrated to embrace the production of gold, silver and lead, custom ore smelting and fabrication of an extensive line of copper products.

Despite the "prince or pauper" character of the copper mining industry, Phelps Dodge Corp. has distinguished itself by its ability to maintain profitable operations under all except the most adverse conditions. The only year in which the company has shown a loss was in 1932, at the very depths of the depression. The company's best showing in recent years was made in 1937 when net income before depletion totaled $12,740,773 and equalled $2.51 a share on the outstanding capital stock. Last year sales declined some $20,000,000, reflecting the almost complete withdrawal of copper buyers from the market, while accumulated inventories were being allowed to run off. As a result, net income last year dropped about $4,000,000 to $8,656,823, before depletion. Applied to the $5,071,260 shares of capital stock outstanding, this was equivalent to $1.71 per share.

The company issues only semi-annual reports, but earlier this year it was officially intimated that profits in the first quarter were equivalent to about $2,100,000, or 24 cents per share for the stock. In the first six months indications are that profits will aggregate around $4,250,000, which would be equal to 84 cents on the capital stock, and would compare with actual net income of $3,830,588 reported for the first half of 1938, which was equivalent to 76 cents per share for the stock. There are also indications at the present time that results in the final half of the current year (*Please turn to page 420*)

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities*.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Warner Bros. Pictures, Inc.

How do you rate Warner Bros. common at this time? Has its position been strengthened materially by the plan to replace the 6% convertible debentures with others not convertible? What action has been taken to eliminate preferred stock dividend arrears? I have 200 shares bought at 10. Do you advise holding on?—P. D., Baltimore, Md.

The latest report of Warner Bros. Pictures, Inc., was for the twenty-six weeks ended February 25, 1939, when a net income of $1,665,889 was equal, after regular preferred dividend requirements, to 40 cents a share on the common stock against $2,824,618, or 71 cents a common share the year before. Indications are that some improvement has been recorded recently in line with the betterment which has occurred in general business conditions. The company has been successful in meeting the problem of the $25,534,000 convertible debenture maturity falling due September 1, 1939, through an exchange offer whereby a straight 6% debenture bond maturing in 1948 was accepted by the vast majority of the company's bondholders in lieu of the convertible issue, the balance having been called for payment. As yet, however, there has been no definite move made with a view to clearing preferred dividend arrears on the present outstanding 103,107 shares of $3.85 cumulative preferred which total about $28 per share, although it is possible that an exchange offer will be made for that stock at a later date. In the meantime, the common stock will doubtless continue to be influenced mainly by the earnings trend which currently is indicated to be toward moderately higher levels. In our opinion, therefore, the common stock of this company is not without speculative appeal and we favor further holding at current market levels.

Loose Wiles Biscuit Co.

I have 200 shares of Loose Wiles Biscuit common bought at 40 in 1937. With any lift in the general market, do you think I can look for substantial price appreciation for my stock? Are earnings increases likely to continue so that the $1 annual dividend may be raised this year?—B. W., Boston, Mass.

In line with the experience of other leading units engaged in the baking industry, the Loose Wiles Biscuit Co. made a far better showing in the year 1938 than did the average industrial enterprise. The company reported for 1938 a net profit of $988,073, or $1.51 per common share, as compared with $733,593 or $1.01 per share a year earlier. The improvement continued into the first quarter of the current year when 32 cents per common share was earned, as against 17 cents earned on the common stock in the initial three months of 1938. Contributing to the higher rate of earning power were the low costs of flour and other ingredients used in the production of the company's products. Continued low costs and the better demand for the company's higher priced lines should allow for higher earnings throughout the current year. A strong financial position was shown at the close of 1938 and the regular $1 annual dividend appears well secured. An increased dividend rate, or extras, may be looked for later in the year. Although lacking in dynamic appreciation possibilities because of normal narrow fluctuation of earning power, we favor retention for income and gradual price enhancement.

Mack Trucks, Inc.

Holding 200 shares of Mack Trucks at 29, I am worried about the deficits being reported. Do you think hat operations will soon be placed on a profitable basis? I bought the stock expecting it to advance on the strength of increased building activity and its Diesel engine developments. Will you please let me have your advice?—S. I., Milwaukee, Wisc.

The improvement which has occurred in the automobile industry

(*Please turn to page* 415)

When *Quick* Service Is Required, Send Us a Telegram Prepaid and Instruct Us to Answer Collect.

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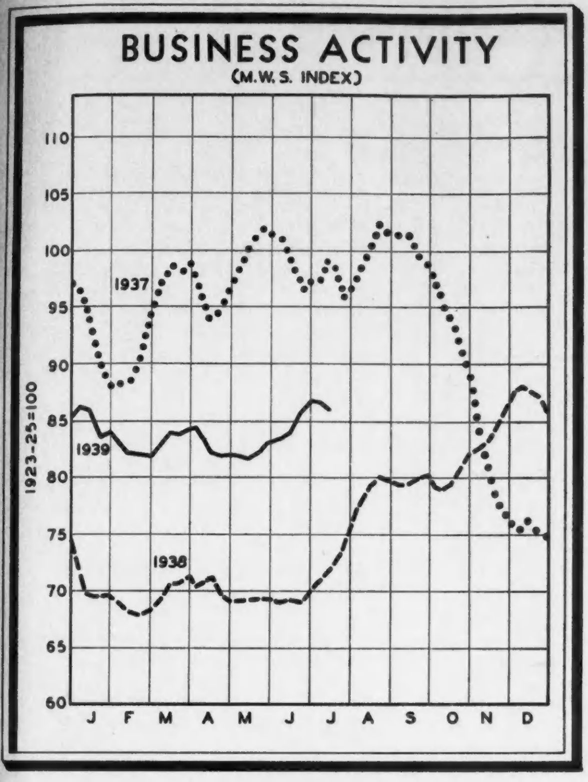

CONCLUSIONS

INDUSTRY—Further recovery to follow vacations dip.

TRADE—Mills pressed for prompt delivery on Summer promotion merchandise.

COMMODITIES—Agricultural prices hit new lows; industrial raw materials firm.

MONEY AND CREDIT—Excess reserves at new peak despite reduced gold receipts and some revision in Reserve open market policy.

The Business Analyst

Summer vacations, taken earlier than usual; a double holiday in many lines during the week containing July 4; curtailment of print cloth production; closing of blast furnaces for repairs; and the General Motors strike have conspired during the past fortnight to produce a rather sharp dip in the per capita volume of **Business Activity** throughout the country. But these deterrents are all temporary; so that, with war threats dormant, present prospects point to an early resumption of the briefly halted recovery which should carry the nation's production and trade into new high ground for the year before the third quarter comes to a close. Congress, now slated to adjourn by early August, has contributed in modest degree to a noticeable improvement in business sentiment by approving a number of mildly constructive measures, while turning a cold shoulder upon further experiments in reform.

* * *

An additional stimulus to manufacturing activity may come from the circumstance that, early in the autumn, minimum hourly wage rates under the Wage and Hour Law will be lifted 5 cents, to 30 cents, and the work week shortened to 42 hours. For the first time in several years, **Employment** on various Government work relief projects has fallen below

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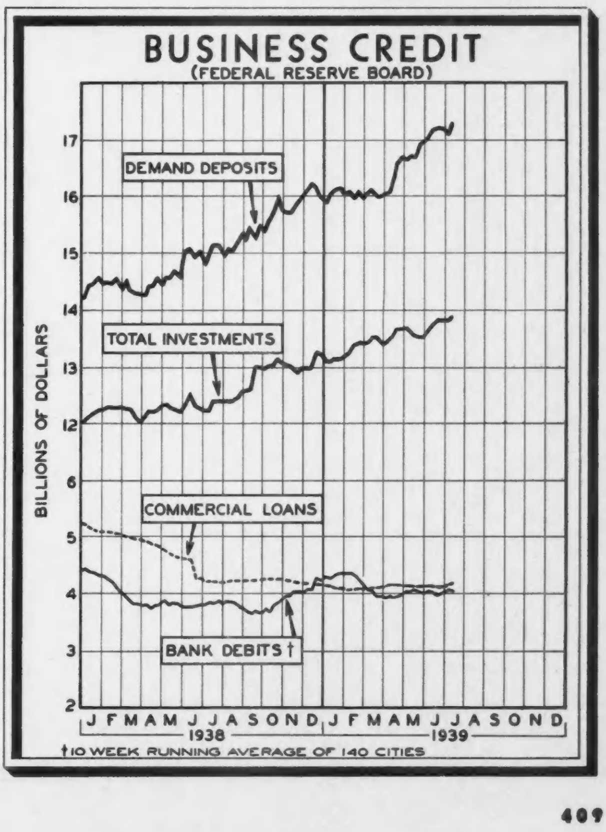

Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (a)	June	97	92	77
INDEX OF PRODUCTION AND TRADE (b)	May	81	81	72
Production	May	77	77	67
Durable Goods	May	60	63	43
Non-durable Goods	May	87	87	81
Primary Distribution	May	75	74	70
Distribution to Consumers	May	94	94	83
Miscellaneous Services	May	80	80	78
WHOLESALE PRICES (h)	June	75.6	76.2	78.3
INVENTORIES (n. i. c. b.)				
Raw Materials	May	95.9(pl)	96.6	115.9
Semi-Finished Goods	May	114.3(pl)	113.7	122.6
Finished Goods	May	110.0(pl)	110.9	115.5
COST OF LIVING				
All items	June	84.7	84.8	86.7
Food	June	77.9	78.1	81.9
Housing	June	86.0	86.2	86.7
Clothing	June	72.0	72.1	73.9
Fuel and Light	June	83.4	84.0	83.7
Sundries	June	96.6	96.6	97.5
Purchasing value of dollar	June	118.1	117.9	115.3
NATIONAL INCOME (cm)†	May	$5,178	$5,438	$5,020
CASH FARM INCOME†				
Farm Marketing	May	$508	$463	$510
Including Gov't Payments	May	589	553	554
Total, First 3 Months	1939	2,829	......	2,782
Prices Received by Farmers (ee)	May	90	89	92
Prices Paid by Farmers (ee)	May	120	120	125
Ratio: Prices Received to Prices Paid (ee)	May	75	74	74
FACTORY EMPLOYMENT (f)				
Durable Goods	May	83.2	84.1	75.0
Non-durable goods	May	96.7	98.0	91.5
FACTORY PAYROLLS (f) (not adjusted)	May	84.4	84.9	72.9
RETAIL TRADE				
Department Store Sales (f)	June	87	85	82
Chain Store Sales (g)	June	111	110	106.3
Variety Store Sales (g)	June	118	115	110.8
Rural Retail Sales (j)	June	131.7	131.2	116.6
Retail Prices (s) as of	July 1	89.1	89.1	89.2
FOREIGN TRADE				
Merchandise Exports†	May	$249.3	$230.9	$257.3
Cumulative year's total† to	May 31	1,179.4	......	1,378.1
Merchandise Imports†	May	202.5	186.2	148.2
Cumulative year's total† to	May 31	915.5	......	815.1
RAILROAD EARNINGS				
Total Operating Revenues★	1st 5 mos.	$1,482,510	......	$1,353,986
Total Operating Expenditures★	1st 5 mos.	1,158,959	......	1,113,462
Taxes★	1st 5 mos.	142,901	......	140,655
Net Rwy. Operating Income★	1st 5 mos.	126,167	......	46,026
Operating Ratio %	1st 5 mos.	78.18	......	82.24
Rate of Return %	1st 5 mos.	1.50	.....	0.55
BUILDING Contract Awards (k)†	June	$288.3	$308.5	$251.0
F. H. A. Mortgages				
Selected for Appraisal†	June	101.5	109.4	97.2
Accepted for Insurance†	.....	82.3	73.7	74.2
Premium Paying†	June	......	49.4	......
Building Permits (c)				
214 Cities†	June	99.3	95.6	65.2
New York City†	June	21.6	15.9	22.4
Total, U. S.†	June	120.9	111.5	87.6
Engineering Contracts (En)†	June	$262.4	$253.0	$223.1

PRESENT POSITION AND OUTLOOK

(Continued from page 409)

the like date a year earlier. In May the total came to only 4,170,000, a drop of 78,000 from May last year. Further sharp reductions have been ordered, and present prospects are that the majority of workers thus released will be absorbed by private industry without much hardship and without any appreciable check to recovery, especially in view of the approaching reduction in working hours under the Wage and Hour Law.

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Our **raw material price** Index has been notably steady for a number of weeks; but the rise over last year has narrowed to 1%, owing to a sharp advance last year at this season. **Wholesale Prices** are 3% lower than a year ago, while **retail prices** are off only 0.1%. Purchasing power of **prices received by farmers** is on a level with last year.

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Although **department store sales** have suffered some from extra holiday and earlier Summer vacations during the past fortnight, merchandise sales at both wholesale and retail are running moderately ahead of last year and profit margins are widening. For the month of June, sales increases over last year amounted to 5% for **department stores,** compared with a six-months' gain of only 3%; 12% for **chain stores,** against 9% in the half year; 7.4% for **variety stores,** compared with 5.6% in the first six months; and 24% for **mail order** houses, against 18% in the half year. Merchandise **exports** and **imports** in May were 12% above the like month of 1938, against a five-months' decline of 4%. Export balance in May was $47,000,000, compared with $109,000,000 a year earlier. For five months, the export balance was $264,000,000, against $543,000,000 in the like period last year. New life insurance written in June was 22% ahead of last year, compared with a six-months' gain of only 4%.

* * *

In spite of holiday and vacation handicaps, **carloadings** have rebounded to a new 1939 high. June gross of Class I **railroads** was 12% ahead of the like month in 1938, with freight increasing 14% and passenger revenue 9%. Present prospects favor passage, before Congress adjourns, of a compromise Chandler bill to aid the carriers in making voluntary adjustments of their capital structures; but there seems little hope for the Wheeler-Lea bill bringing water carriers under ICC regulation.

* * *

Residential building Contracts awarded in the first half were 61% above the like period of 1938, Engineering awards were up 24%, and Mortgages accepted for appraisal by the FHA increased 30%. A rising trend last year during the second half may result this year in narrowing margins of annual increases. It is not certain whether the Government's attack upon monopolistic practices in the construction field will prevent further increases in costs, and so stimulate building, or whether it may encourage expectations of lower costs next year, and so lead to postponement of building plans.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	June	3,130	2,918	1,633
Pig Iron Production in tons★	June	2,119	1,718	1,061
Shipments, U. S. Steel in tons★	June	733	723	478
AUTOMOBILES				
Production				
Cars & Trucks, U. S. & Canada	June	322,670(pl)	313,214	189,402
Total 1st 6 Months	1939	2,045,723	......	1,294,151
Retail Sales				
Passenger Cars, U. S. (p)	May	280,834	268,335	178,052
Trucks, U. S. (p)	May	48,000(pl)	45,201	32,956
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	June	321.1	335.9	267.1
Shipments, U. S. & Canada★ (tons)	June	316.9	359.1	274.7
Mill Stocks, U. S. & Canada★ (tons)	June 30	213.6	209.4	211.2
LIQUOR (Whisky)				
Production, Gals.★	June	5,782.2	7,971.0	4,721.4
Withdrawn, Gals.★	June	4,889.8	4,728.2	5,174.7
Stocks, Gals.★ as of	June 30	478,875	......	471,160
GENERAL				
Machine Tool Orders (n)	June	211.6	219.8	70.2
Railway Equipment Orders (Ry)				
Locomotive	June	8	51	31
Freight Cars	June	1,324	2,051	1,090
Passenger Cars	June	14	None	None
Cigarette Production†	June	16,595	15,445	14,717
Bituminous Coal Production★ (tons)	June	28,506(pl)	17,880	22,507
Boot and Shoe Production Prs.★	June	29,000(pl)	32,110	26,897
Portland Cement Shipments★	May	12,688	9,654	9,752
Commercial Failures (c)	June	952	1,122	1,073

PRESENT POSITION AND OUTLOOK

Retail sales of **automobiles** during the final third of June were 60% above the like period last year, making a total increase of 56% for the month and 41% for the half year. On a daily average basis, allowing for an extra holiday, retail sales during the first third of July topped the like period of 1938 by 66%.

* * *

While the domestic **machine tool** business continues to improve, a drop in foreign bookings caused the Index of new orders for June to recede a few points from May, but the increase over June, 1938, amounted to 201% compared with a gain of only 158% for the second quarter. **Portland Cement** shipments in May were 30% above the like month a year earlier, while finished stocks at the month-end were 3% lower than at the like date last year.

* * *

July **shoe** production is expected to be 4% above last year, against an 8% increase for the month of June. Total output for 1939 should be about on a level with 1937; but profits for the industry are expected to be better, owing to moderately higher prices. **Newsprint** consumption by U. S. publishers during May was slightly above last year. North American stocks at the month-end were 12% lower than a year earlier.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	July 15	86.1(pl)	86.6	72.6
ELECTRIC POWER OUTPUT				
K.W.H.†	July 15	2,324	2,078	2,084
TRANSPORTATION				
Carloadings, total	July 15	673,812	559,109	602,445
Grain	July 15	59,265	53,456	63,022
Coal	July 15	110,855	89,635	89,749
Forest Products	July 15	31,426	22,030	28,375
Manufacturing & Miscellaneous	July 15	259,098	214,884	234,932
L. C. L. Mdse	July 15	150,488	127,662	145,353
STEEL PRICES				
Pig Iron $ per ton (m)	July 20	20.61	20.61	19.61
Scrap $ per ton (m)	July 20	15.04	14.79	13.42
Finished c per lb. (m)	July 20	2.236	2.236	2.300
STEEL OPERATIONS				
% of Capacity week ended (m)	July 22	56.5	50.0	44.0
CAPITAL GOODS ACTIVITY				
(m) week ended	July 15	64.1	61.9	48.2
PETROLEUM				
Average Daily Production bbls.★	July 15	3,530	3,530	3,343
Crude Runs to Stills Avge. bbls.★	July 15	3,390	3,420	3,221
Total Gasoline Stocks bbls.★	July 15	79,416	80,823	78,693
Fuel Oil Stocks, bbls.★	July 15	109,521	108,611	114,999
Crude—Mid-Cont. $ per bbl	July 22	1.02	1.02	1.22
Crude—Pennsylvania $ per bbl	July 22	1.48	1.48	1.40
Gasoline—Refinery $ per gal	July 22	.05⅝	.06⅛	.06⅞

PRESENT POSITION AND OUTLOOK

Outlook for utility earnings is brightened by prospects of further gains in general manufacturing activity. **Electric power output** has already rebounded since the holidays to a new 1939 high, and should expand farther before summer is over. The industry is cheered by the recent action of Congress in limiting the territory in which the TVA may compete with private companies.

* * *

Steel operations have rebounded sharply since the July 4th holiday to the best level of the year; though the pick-up has been somewhat less than normal for this season, owing to the necessity for repairs on several large furnaces. Ordinarily the summer peak is reached around the third week of August; but slackening in operations should be less noticeable this year, and third quarter earnings, though meager, will make a far better showing than reported for the like period last year.

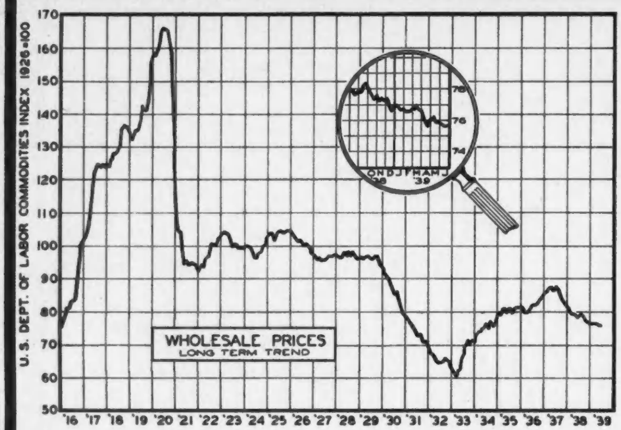
* * *

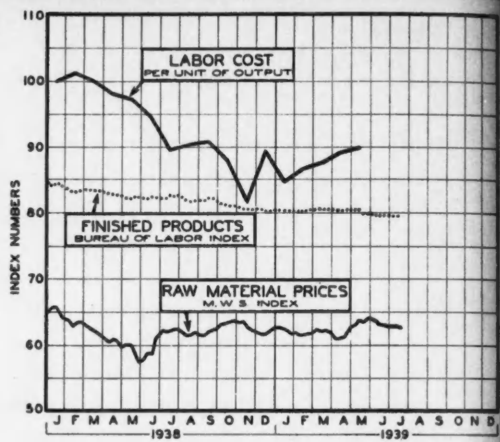
Under moderately higher prices for **gasoline,** earnings of the **oil** Industry during the second quarter made a considerably better comparison with the like period of 1938 than reported for the first quarter; so that half-year profits were only 1/3 less than last year, against a 60% drop for the first quarter.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (pl)—Preliminary. (s)—Fairchild Index, Dec. 1930—100. (En)—Engineering News Record. (Ry)—Railway Age. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1936—100.

Trend of Commodities

Commodity prices have shown no disposition to take their cue from rising prices in the securities markets. In fact near the close of the past week a number of basic commodities exhibited pronounced weakness. On July 20, new five-year lows were reached by the prices of corn, lard, hogs and cottonseed oil futures. Smaller declines were shown in cocoa, coffee, copper, pepper and rubber. Wheat in Liverpool has declined to the lowest level in nearly 350 years. The most severe declines have been experienced by agricultural commodities under the pressure of huge world surpluses. Weakness in industrial commodities has been more restricted and confined to a few items. Although business is improving and the outlook is promising, periods of recurring weakness in raw material prices or the absence of impressive strength only strengthen the reluctance of buyers to expand commitments beyond their immediate needs.





Changes in Major Commodity Price Groups for the fortnight Ended July 15, 1939

Farm Products	63.3	up 0.4	Metals	93.3	no change
Foods	67.6	up 0.2	Building Material	89.8	up 0.1
Hides and Leather	92.8	down 0.3	Chemical	74.7	down 0.2
Textiles	67.1	up 0.2	Housefurnishings	87.0	no change
Fuel and Lighting	73.4	down 0.3	Miscellaneous	73.3	down 0.3

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
October	July 22	8.64	8.79	8.73
December	July 22	8.54	8.62	8.82
Spot	July 22	9.44	9.69	8.64
(In bale 000's)				
Visible Supply, World	July 21	6,708	6,764	7,975
Takings, World, wk. end	July 21	252	351	256
Total Takings, season Aug. 1 to	July 21	(w)	(w)	(w)
Consumption, U. S.	June	578	605	443
Exports, wk. end	July 21	23	20	54
Total Exports, season Aug. 1 to	July 21	3,301	3,277	5,643
Government Crop Est. (final)	1938	11,943(ac)	......	18,946(ac)
Active Spindles (000's)	June	21,788	21,975	21,142
WHEAT				
Price cents per bu. Chi. closing				
September	July 22	63½	66¾	70¼
December	July 22	65	68⅛	72⅛
Exports bu. (000's) since July 1 to	July 15	4,848	3,077	5,375
Exports bu. (000's) wk. end	July 15	1,771	3,077	2,108
Visible Supply bu. (000's) as of	July 15	110,726	91,661	63,092
Gov't Crop Est. bu. (000's)	July 1	716,655	......	930,801(ac)
CORN				
Price cents per bu. Chi. closing				
September	July 22	39⅞	45⅛	59
December	July 22	41⅜	46	58
Exports bu. (000's) since July 1 to	July 15	84	62	6,778
Visible Supply bu. (000's) as of	July 15	25,738	28,226	19,995
Gov't Crop Est. bu. (000's)	July 1	2,570,795	......	2,408,958(ac)

PRESENT POSITION AND OUTLOOK

Cotton. Export subsidy placed at 1½ cents a pound. Trade skeptical over effectiveness of export efforts. Prices on the whole have been fairly buoyant, although recent reports of much improved growing conditions appear to have brought in some selling. With the recent price rise and indicated acreage, the conditions under which cotton loans would become mandatory on this year's crop quite possible may not arise.

* * *

Wheat. Domestic prices have shown only feeble rallying power and during the last fortnight Liverpool prices slumped to the lowest level in 347 years. World production of wheat (excluding China and Russia) for the crop year ended June 30, last, according to the Department of Agriculture, totaled 4,555,000,000 bushels, and carryover was 1,217,000,000 bushels, more than double the carryover a year ago. World disappearance is about 3,970,000,000 bushels. Although the United States has withdrawn temporarily from the export market, dumping by Argentina and Canada appear to have been depressing factors in world markets. With the various features embodied in the Agricultural Act, margin between world and domestic prices may widen.

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Corn. Weakness in corn, as well as hogs and lard, reflects an unfavorable statistical position, arising from favorable crop prospects and a large carryover.

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	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	July 22	10,375	10.25	9,875
Export c. i. f.	July 22	10.25	10.22½	10.00
Refined Prod., Domestic (tons)	June	61,719	68,536	32,465
Refined Del., Domestic (tons)	June	53,573	51,225	32,863
Refined Stocks, Domestic (tons)	June 30	335,012	337,155	358,971
Refined Prod., World (tons)	June	173,205	170,472	142,532
Refined Del., World (tons)	June 30	180,433	172,296	145,393
Refined Stocks, World (tons)	June 30	513,670	520,898	551,495
TIN				
Price cents per lb., N. Y.	July 22	48.50	48.55	43.50
Tin Plate, price $ per box	July 22	5.00	5.00	5.35
World Visible Supply† as of	June 30	30,055	30,866	29,061
U. S. Deliveries†	June	4,925	5,905	4,205
U. S. Visible Supply† as of	June 30	4,388	3,387	4,247
LEAD				
Price cents per lb., N. Y.	July 22	4.85	4.85	4.90
U. S. Production (tons)	May	30,866	33,873	27,909
U. S. Shipments (tons)	May	5,905	5,980	4,275
Stocks (tons) U. S., as of	May 31	3,387	3,385	3,679
ZINC				
Price cents per lb., St. Louis	July 22	4.50	4.50	4.75
U. S. Production (tons)	June	39,450	42,302	30,799
U. S. Shipments (tons)	June	37,284	39,607	29,248
Stocks (tons) U. S., as of	June 30	135,241	133,075	149,671
SILK				
Price $ per lb. Japan xx crack	July 22	2.70½	2.64½	1.85½
Mill Dels. U. S. (bales), season to	June 30	414,481	388,225	380,480
Visible Stocks N. Y. (bales) as of	June 30	19,209	24,201	44,457
RAYON (Yarn)				
Price cents per lb	July 22	51.0	51.0	49.0
Consumption	June	32.9	25.9	18.1
Stocks as of (a)	June 30	32.8	41.5	67.0
WOOL				
Price cents per lb. tops, N. Y.	June 22	88	87½	83½
HIDES				
Price cents per lb. No. 1 Packer	July 22	12	11½	11¼
Visible Stocks (000's) (b) as of	May 31	12,903	12,813	13,804
No. of Mos. Supply as of	May 31	6.5	6.2	8.0
RUBBER				
Price cents per lb.	July 22	16.70	16.57	15.80
Imports, U. S.†	June	35,947	47,535	26,011
Consumption, U. S.†	June	47,259	44,377	32,540
Stocks U. S. as of	June 30	181,794	193,602	294,796
Tire Production (000's)	May	4,418	4,211	2,663
Tire Shipments (000's)	May	4,753	4,356	2,391
Tire Inventory (000's) as of	May 31	9,919	9,998	9,521
COCOA				
Price cents per lb. September	July 21	4.12	4.09	5.03
Arrivals (thousand bags)	June	198	416	129
Warehouse Stocks (thousand lbs.)	July 21	1,389	1,404	655
COFFEE				
Price cents per lb. (c)	July 22	7.25	7.25	7.75
Imports, season to	June 30	13,878	12,624	12,365
U. S. Visible Supply (bags 000's)	July 1	1,408	1,451	1,418
SUGAR				
Price cents per lb.				
Duty free delivered	July 22	2.88	2.83	2.82
Refined (Immediate Shipment)	July 22	4.30-4.40	4.40	4.50
U. S. Deliveries (000's)*	1st 6 mos.	2,871(pl)	......	2,901
U. S. Stocks (000's)* as of (RR)	June 30	903	......	840

PRESENT POSITION AND OUTLOOK

Copper. Domestic deliveries in June totaled 53,573 tons, compared with the revised figure of 51,225 tons for May. Incidentally, the revision of the May figures added 5,264 tons to domestic deliveries in that month. Coincident with an advance of ⅛ cent in prices, it was reported that June consumption of 57,878 tons was the highest this year. Buying in the domestic market has quieted but the trade is anticipating a further sizable reduction in domestic stocks of refined copper over the next few months.

* * *

Tin. Substantial tonnages are reported to have been sold by the Buffer Pool over the past fortnight. For the most part, however, the market has continued quiet, with prices holding within a narrow range. Domestic tin plate activity has risen to 65 per cent of capacity.

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Lead. Although demand has been of more moderate proportions, prices have held firm. June statistics are expected to reveal a continued healthy condition. Deliveries were probably about 38,000 tons as compared with 40,000 in May.

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Zinc. Indications are that demand has recently been somewhat better than shown by actual figures. The belief is taking hold that any price change from this point on will be on the up side and buyers apparently have shown a greater willingness to place orders.

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Silk. Official Japanese estimate of the current cocoon crop indicates a total only slightly below the actual crop last year, although 6 per cent above the estimate last year at this time. Substantial increase in consumption by Japan foreshadows a continued tight supply situation.

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Wool. Wool textile activity, according to official indices, recovered in May to approximately the March level. Apparel wool consumption was up 30 per cent from the April level and 56 per cent of May a year ago.

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Hides. A wave of buying activity has resulted in a substantial reduction in packers' stocks. Packers' inventories are probably down to 350,000 hides, close to the essential minimum. Demand for leather has picked up some but prices remain low.

* * *

Rubber. June statistics were better than had been expected. Consumption of crude rubber rose 6.5 per cent over May; exports were down more than 24 per cent; and stocks at the end of the month were the lowest since August, 1937. Domestic interests expect that at the next meeting of the International Committee, export quotas will be raised to 60 per cent of basic for the fourth quarter, as compared with 55 per cent now in effect.

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Coffee. Recent strength in the Santos contract reflects reports of crop damage caused by recent rains. A modification of sacrifice quotas is being sought by Sao Paulo growers, permitting delivery of lower grades.

* * *

Sugar. Talk has again revived of a possible reduction in the U. S. duty on Cuban sugar. Official confirmation is lacking, but reports have apparently been sufficient to relieve nearby selling pressure on raws.

(a)—Million Pounds. (ac)—Actual. (pl)—Preliminary. (c)—Santos No. 4 N. Y. †—Long tons. *—Short tons. w—Withheld pending season-end adjustments. (RR)—Raw and refined.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	July 22	1¼%	1¼%	1¼%
Prime Commercial Paper	July 22	½%	½%	¾%
Call Money	July 22	1%	1%	1%
Re-discount Rate, N. Y.	July 22	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	July 8	2,206	2,441	2,030
Cumulative year's total to	July 8	64,073	......	60,631
Bank Clearings, N. Y.	July 8	3,362	2,607	2,666
Cumulative year's total to	July 8	84,850	......	98,408
F. R. Member Banks				
Loans and Investments	July 12	22,023	22,000	20,468
Commercial, Agr., Ind. Loans	July 12	3,887	3,872	3,885
Brokers Loans	July 12	644	650	638
Invest. in U. S. Govts	July 12	8,493	8,485	7,730
Invest. in Govt. Gtd. Securities	July 12	2,153	2,150	1,505
Other Securities	July 12	3,246	3,223	3,002
Demand Deposits	July 12	17,368	17,109	14,994
Time Deposits	July 12	5,224	5,229	5,209
New York City Member Banks				
Total Loans and Invest	July 19	8,092	8,140	7,537
Comm'l Ind. and Agr. Loans	July 19	1,405	1,409	1,451
Brokers Loans	July 19	472	496	486
Invest. U. S. Govts	July 19	3,154	3,184	2,815
Invest. in Gov't Gtd. Securities	July 19	1,100	1,093	753
Other Securities	July 19	1,106	1,105	1,059
Demand Deposits	July 19	7,655	7,656	6,343
Time Deposits	July 19	632	630	644
Federal Reserve Banks				
Member Bank Reserve Balance	July 19	10,412	10,350	8,202
Money in Circulation	July 19	7,022	7,041	6,433
Gold Stock	July 19	16,191	16,174	12,989
Treasury Currency	July 19	2,890	2,885	2,717
Treasury Cash	July 19	2,530	2,552	2,321
Excess Reserves	Ju,y 19	4,490	4,450	3,040

NEW FINANCING (millions of $)		Latest Month	Last Month	Year Ago
Corporate	June	282.0	182.5	301.1
New Capital	June	30.2	21.0	202.3
Refunding	June	251.8	161.5	98.8

COMMENT

In three out of the past four weeks the **Federal Reserve** system open market account has failed to replace maturing Treasury bills, with the result that there has been a net decline of $48,878,000 in the system's bill holdings. There is nothing to indicate, however, that a decisive shift in credit policy is contemplated. The action of the open account has been without effect so far as Government bond market is concerned, the only apparent result having been to retard the rate of increase in excess reserves. Excess reserves, had the system account not permitted maturing bills to run off, would have been about $50,000,000 higher than at the present time. Nevertheless, in the latest week excess reserves rose $40,000,000, setting another new peak and bringing the total increase for the past four weeks to $260,000,000. If, however, gold imports continue to decline the effect of the open market policy upon excess reserves may become more pronounced. In the latest week gold stocks increased only $17,000,000, which with the exception of a single week in January, was the smallest increase since August, 1938.

* * *

Loans and investments of New York City Member Banks in the most recent week declined $48,000,000, of which a drop in investments accounted for $22,000,000. Following a three weeks rise in loans to industry, commerce and agriculture totaling $37,000,000 this item declined $4,000,000 in the latest week. Holdings of all direct Government securities were off $30,000,000 and for the first time in several weeks New York banks sold Treasury bonds, apparently taking profits on holdings acquired earlier in the year. Government guaranteed securities rose $7,000,000 and other securities were up $10,000,000.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1939 Indexes High	Low	July 15	July 22
316 COMBINED AVERAGE	73.1	50.7	58.9	63.1
5 Agricultural Implements	119.4	81.4	95.6	99.4
6 Amusements	43.2	26.8	33.7	36.7
15 Automobile Accessories	92.3	55.2	70.9	77.4
12 Automobiles	12.8	8.1	9.3	10.1
11 Aviation (1927 Cl.—100)	182.7	128.2	144.2	158.3
3 Baking (1926 Cl.—100)	15.4	11.5	13.5	14.3
3 Business Machines	183.9	118.0	132.4	144.5
9 Chemicals	168.2	123.7	135.2	148.0
20 Construction	47.5	27.7	32.5	35.0
5 Containers	242.6	165.0	192.2	201.1
9 Copper & Brass	118.6	71.2	86.3	97.0
2 Dairy Products	31.6	23.6	30.7	31.6H
8 Department Stores	23.9	16.5	20.9	22.0
7 Drugs & Toilet Articles	53.5	40.4	44.9	47.7
2 Finance Companies	312.0	219.4	263.3	280.8
7 Food Brands	103.3	69.1	91.7	103.3R
3 Food Stores	47.3	33.3	46.2	47.3H
4 Furniture & Floor Covering	72.1	47.1	57.6	63.9
3 Gold Mining	1301.2	1123.7	1194.3	1192.9
6 Investment Trusts	28.1	19.2	21.8	24.5
4 Liquor (1932 Cl.—100)	193.1	143.0	151.8	161.0
9 Machinery	129.0	83.3	98.0	106.0

No. of Issues (1925 Close—100)	1939 Indexes High	Low	July 15	July 22
316 COMBINED AVERAGE	73.1	50.7	58.9	63.1
2 Mail Order	90.5	69.2	86.5	90.5H
4 Meat Packing	52.3	43.2	46.3	45.6
14 Metals, (non-Ferrous)	173.6	122.0	135.8	143.6
2 Paper	13.5	7.5	8.2	9.8
24 Petroleum	100.9	76.6	79.4	82.3
18 Public Utilities	62.6	44.9	53.4	57.6
4 Radio (1927 Cl.—100)	17.0	11.6	12.6	13.3
9 Railroad Equipment	61.6	33.7	40.2	45.5
22 Railroads	18.1	10.9	12.1	13.4
2 Realty	7.9	2.7	2.8	3.8
2 Shipbuilding	82.7	45.1	57.2	63.4
13 Steel & Iron	99.0	60.4	67.3	77.0
2 Sugar	20.1	13.3	16.1	15.6
2 Sulphur	153.2	113.0	118.0	131.3
3 Telephone & Telegraph	52.7	40.3	47.8	50.6
4 Textiles	45.0	27.4	38.9	43.3
4 Tires & Rubber	20.0	13.0	15.9	17.4
4 Tobacco	86.5	76.2	85.3	86.5H
4 Traction	39.1	21.9	36.4	39.1h
4 Variety Stores	244.4	189.3	237.9	244.4H
20 Unclassified (1938 Cl.—100)	100.8	73.1	85.7	91.4

h—New HIGH this year. H—New HIGH since 1937. R—New HIGH record since 1931.

Answers to Inquiries

(*Continued from page* 408)

generally over recent months augurs well for sales volume of such truck manufacturers as Mack Trucks, Inc., since truck sales normally respond to improvement in automobile sales, although tending to follow rather than lead a recovery movement. In the first quarter of the current year, Mack Trucks, Inc., was able to considerably reduce its net loss over the year before, and indications point to a gradual improvement in volume business and earnings over coming months. Thus, the year as a whole should compare most favorably with 1938 when a loss equal to $1.56 a share was recorded, against $2.15 a share profit in 1937. The company has been actively engaged in the development of Diesel powered trucks and buses and this line gives promise of considerable future growth, particularly in the heavy duty truck and bus field. Finances have been maintained in excellent shape and at the close of last year, current assets of $27,005,338 contrasted with current liabilities of only $3,743,637. The company has no funded debt or preferred stock outstanding, the entire capitalization consisting of 597,335 shares of common. Thus, dividend payments should be resumed fairly promptly, following the anticipated improvement in the earnings picture and we believe that the stock should work out well from a market standpoint over a reasonable period of time.

Bullard Company

Is Bullard Company in a position to make a better-than-average per share showing than its competitors? I have read that estimates indicate as much as 65% of machine tools in government arsenals are obsolete; and that the potential demand from industry is nearly as great. Bought 150 shares of Bullard at 28 and am anxious to learn my recouping possibilities.—L. H., Fort Worth, Tex.

The Bullard Company ranks as one of the foremost manufacturers of vertical turret lathes and automatic machine tools. The company's line includes some of the most efficient tools developed for use in the aircraft, automobile, railroad and railroad equipment industries. With the benefit of a small capitalization, comprising 276,000 shares of capital stock, the company has been able to make a better-than-average per share showing among other units engaged in the manufacture of machinery and heavy capital goods. In 1938, the company reported a net loss of $22,171 as compared with a net profit of $879,118 or $3.19 per share a year earlier. The financial position at the close of 1938 was comfortable. It is estimated that the percentage of obsolete machine tools in government arsenals is in excess of 65% and the percentage of obsolescent and replacement needs in industrial equipment is nearly as great. High wage costs in many industries have greatly increased the potential demand for labor-saving machinery, and this demand should make itself felt as general business improves. A recovery of former earning power is looked for this year, partly due to the foreign and domestic armament program. We recommend longer term retention of your 150 shares.

A. G. Spalding & Bros.

How will the new recapitalization plan recently voted affect stockholders in this company? What is your appraisal of the new common and preferred shares? Has the discontinuance of the retail departments in most of the branch stores been successful in attaining more distribution and increased sales? Are profitable operations looked for this year?—E. R., Spokane, Wash.

A. G. Spalding & Bros. ranks as the leading manufacturer of athletic goods and equipment with its products distributed throughout the United States, England, Australia and other foreign countries. The company formerly operated more than 50 retail outlets but all but 10 of these stores have been discontinued, while manufacturing is now concentrated in one factory in Chicopee, Mass. The company obtains distribution through forty district and wholesale branches. A recapitalization plan recently was approved whereby a new company, A. G. Spalding & Bros., Inc., of Delaware, has absorbed the former New Jersey corporation. Under the plan, preferred shareholders have been offered new securities, but the common stock has remained intact, junior shareholders being offered an exchange share for share, of new common stock of $1 par value. In the first six months of the current fiscal year, the company netted $77,979 compared with a loss of $416,121 in the six months ended April 30, 1938. The outlook for the remainder of the current fiscal year is relatively favorable, and, full year operations should be well in the black. However, we consider the preferred and common shares highly speculative, suitable for retention on that basis, provided you are willing to assume a reasonable degree of risk.

American Chain & Cable Co.

Will you please let me have your appraisal of 150 shares of American Chain & Cable common bought at 23? I would like to know its future market appreciation possibilities in view of generally depressed business activity and whether you advise holding or selling. Is the 15-cent quarterly dividend likely to be maintained?—O. T., Chicago, Ill.

The American Chain & Cable Co. is the world's leading producer of chains, its products ranging from tire chains to large anchor and specialized industrial chains of every description. The company also manufactures automobile accessories, including such items as bumpers, jacks, hoists, upholstery springs, while wire nails and machine shop equipment give further diversification. Important patents are controlled, which are leased to

other manufacturers. In the full year 1938, the American Chain & Cable Co. operated at a net profit of $841,169, equivalent, after dividend requirements on 57,384 shares of 5% cumulative convertible preferred stock, to 56 cents per common share. This compared with earnings of $3,042,075, or $2.79 per share on the junior equity in 1937. The financial condition of the company is satisfactory and no new capital is required. The 15-cent quarterly dividend rate appears reasonably well secured. A sharp pick-up in earnings is looked for in the full year 1937, depending, of course, on the rate of general industrial activity during the second half year. We regard the common stock as an interesting speculation and believe it has attractive price appreciation possibilities. We recommend continued retention.

Foster Wheeler Corp.

Is Foster Wheeler continuing to operate in the black this year? Are materially-increased earnings in prospect reflecting large orders from the extensive maritime and Navy construction program? What is the outlook for business from the oil refining and public utility industries? I have 100 common shares bought at 29 and would appreciate your advice. Has any action been taken to clear up preferred dividend accumulations?—T. F., New York, N. Y.

The Foster Wheeler Corp. specializes in the production of boiler room and oil refining equipment. The company is one of the two leading designers and manufacturers of marine boilers and normally about 50% of its gross sales are realized from steam plant equipment, with the remainder from oil refining equipment and tubing. The company maintains foreign plants in Canada, England, and France, this business making up a substantial portion of the company's activities. In the full year 1938, the company earned $162,447, or 17 cents per common share, as against a loss of $101,499 in 1937. The second quarter of the current year started slowly with little new business booked, but there was a pick-up in inquiries for new equipment in June. It is likely that operations for the first six months of the year were slightly in the black. The company is in a position to benefit from the large maritime and Navy construction program upon which the United States has embarked. Orders from the oil industry held up well during the first six months of 1939 and there has been an increase in inquiries from the utility industry of late. No action has been taken to clear up arrears on the preferred stock, and this will have to await a much higher level of operations. While speculative, we recommend retention of Foster Wheeler as one of the more attractive heavy industries stocks for the longer term.

General Mills

(Continued from page 403)

maintaining uniform quality standards. Nor does research end with the emergence of the finished flour for samples must then go to the experimental kitchens and bakeries.

But if General Mills' operations are characterized by the research that goes into them, the dollar and cents results are even more strongly characterized by their stability. Assuming, as seems likely, that earnings for the fiscal year just ended rose sharply above the $4.17 per common share reported for the preceding year, net available for the equity stock over the past eleven years has ranged between a high better than $7 in 1939 and a low of $3.40 in 1936. The 665,054 common shares are preceded by 223,057 shares of 6% $100 par preferred which, since there is no funded debt outstanding, represent the senior capital claim to earnings. Dividend coverage on the preferred issue, which has never been less than 2.7 times, commands a market price several points above the call price of 115. But it is undoubtedly the call feature that accounts for a yield of almost 5% at recent market levels for the preferred around 122, as compared with less than 4% for the common selling at about 92.

Though the latest available balance sheet is that of May 31, 1938, present financial position probably shows little change from that of a year ago when current liabilities of $4,149,496 were amply covered by current assets of $35,382,996 including $11,989,023 in cash. There were no bank loans outstanding though each year, when the bulk of the wheat harvest comes to market, it is the company's custom to borrow considerable short term funds for the financing of inventory purchases. Over 43% of the original cost of fixed property has been charged off to depreciation and the company's policy as to capitalization of expenditures is generally conservative, many items that might well be capitalized being charged to current operations. Intangibles are carried at $1.

Talk of reenactment of processing taxes still persists though it carries little weight in informed quarters; moreover, this impost, when in effect under the former AAA, proved no particular burden to the company since it was readily passed along to flour purchasers. All things considered, operating results will probably continue for the present at close to the levels of the past decade and, considering their stability, comfortably in excess of dividends. Longer range growth possibilities depend upon further development of the packaged foods lines (construction will shortly get under way on a new $2,000,000 cereal plant at Buffalo) and indications that the downtrend in per capita flour consumption has about run its course. Meanwhile, preferred and common stockholders should enjoy a stable and reasonably well assured income.

The Stockholder's Guide

(Continued from page 401)

whose securities are already listed or fairly actively traded over-the-counter and which can show in its recent past some signs of what its future may be.

The many industries opened up by the scientific and industrial developments of the last decade are the most obvious hunting grounds for the dynamic growth of the next decade. Before very long we shall have outgrown the habit of using 1929 as a measuring stick, except for the standard companies and industries still trying to duplicate those records. A whole crop of newer issues will be added to the market favorites of today, and still the search for the next generation of growth will go on. Stockholders who can keep the process always in the forefront of their market decisions will be following the most direct path to investment success.

Industries with Best Profit Outlook

(*Continued from page* 377)

Rubber, which last year shot up from little more than $12\frac{1}{2}$ cents in June to 17 cents in October, reacting thereafter to $15\frac{3}{4}$ in April, 1939, is now just short of the $16\frac{1}{2}$-cent level. Consumption by domestic manufacturers in June of this year was up 45.2% from the same month of 1938, reducing stocks in this country to the lowest levels since April, 1937. With world stocks also down substantially, rubber is in an undeniably strong statistical position. Given a 60% export quota next quarter (present quarter's figure is 55% and the concensus of trade opinion is that the foreign cartel will boost it only 5 points) and a rate of domestic replacement tire sales the rest of the summer in line with that reported for early July, moderately higher rubber prices in the next few months are not unlikely. Earnings outlook for the industry is accordingly favorable, given a maintained tire price structure.

In the food commodity groups, prospects are mixed. Sugar producers are benefitting from the highest world prices in more than eight years as a result of growing conviction in trade circles that international quotas for the period beginning September 1 will be strictly limited to demand. Cottonseed and vegetable oil processors, on the other hand, are suffering from price depressions of their products in consequence of lower corn prices over the past year or so and, as a result, a larger hog population and lower prices for lard, a keenly competitive shortening product. It's an ill wind that blows no one good, though, and lower corn prices have greatly aided the corn refiners as have lower wheat and flour prices the baking companies.

In other directions, the price situation is either favorable or neutral. The automobile companies, of course, will add several dollars per unit to profit margins on 1940 models as a result of concessions obtained on steel. Stability marks the price structure for electrical and business equipment, and in chemicals, although there has been some shading of list quotations in recent weeks, generally satisfactory levels are being maintained. Retail merchandisers for the most part enjoy profitable cost-selling price relationships, and aircraft manufacturers, under prevailing Government procurement rules and, more especially, on foreign business, are obtaining good margins. The situation is similar for the principal machine tool makers.

Signals to Watch in the Bond Market

(*Continued from page* 387)

bonds. And last, but not least, the possibility of another war scare cannot be disregarded.

All of which, however, will leave no lasting impression on the bond market. The basic indications all point to high bond prices for an indefinite period of time. The outbreak of a major European war might do incalculable damage to the bond market, but this contingency alone is the only one which may be near. All bull markets must have an end, but the end of the present one in bonds is not in sight. Prices may "top out" at or near the present levels but none of the essentials of a real bear market is apparent.

Happening in Washington

(*Continued from page* 375)

not discussed at hearings, and their enactment next session is doubtful. They would change business structure and practices in many industries, particularly those on compulsory patent licensing and prevention of mergers. The plan for civil penalties for corporation officers is so drastic that every executive would be in jeopardy in passing on any business policy.

Farm research program launched by Department of Agriculture on huge scale promises eventually to produce many new industries based on industrial uses for farm products, but results will be slow and there will be pressure to have the Government run the new industries.

Growing Profits for Penney

(*Continued from page* 399)

zation is simple, consisting only of 2,543,984 shares of no-par common stock, preferred stock formerly outstanding to an amount of 199,215 shares having been fully retired by the end of 1934. The company has no funded debt.

Such, in brief, is the story of Penney's growth and development and the position it has come to occupy today. Turning to the question of future possibilities, it should be noted that the initial phase in the company's development — its period of mushroom growth—came to an end several years ago. More recently, expansion has been selective rather than extensive. That, of course, is no indication that the company has ceased growing—indeed, practically every sign is to the contrary. Moreover, a more gradual rate of expansion is proving definitely beneficial earningswise for it has always been Penney's policy to charge to current operations the expenses involved in opening new units.

But, as noted earlier, the company's stock offers more than long range growth possibilities and has much to recommend it to those interested in well maintained earnings and dividends through both good times and bad. For the staple nature of the goods it sells is not the only explanation of Penney's high degree of resistance to depression influences. For one thing, its business is done on a strictly cash basis thus eliminating bad debts and collection risks. For another, the absence of any fixed capital charges and the flexibility of a considerable portion of ordinary operating expenses allow substantial and fairly prompt cost adjustments during periods of general business recession. Finally, with most of its stores located in small cities, Penney faces little in the way of competition from other chains.

All factors considered, the company's shares, currently selling around 93 to yield 4.6% on the basis of last year's dividend payments which will probably be exceeded this year, do not appear overvalued for income and moderate appreciation.

What's the Answer?

(*Continued from page* 380)

Roosevelt budget will be brought anywhere near approximating a genuine balance.

Our primary task is to put idle men, idle money and idle brains to work. The New Deal philosophy is swinging more and more to the view that private capitalism is no longer capable of doing this job—and that Government money and Government brains will have to do it. We see no convincing evidence that a majority of our people accept this defeatist conception. On the contrary our people are increasingly impatient with the inadequate degree of recovery we have had under political management. They don't want Fascism or Communism or Collectivism. They want a private business recovery. Unless all past political history is meaningless, they will say so in no uncertain fashion when the next election comes around.

The inevitable outcome, in the writer's opinion, will be either reconstruction of the New Deal under new executive management or a terrific reaction to political and economic conservatism. From the present somewhat limited perspective, the former seems more likely than the latter—whether the new New Deal bears a Republican or Democratic label.

Present and Future Leaders in Containers

(*Continued from page* 389)

the principal vegetable packs were much larger than the market could readily absorb and packers entered the current year with large stocks on hand. Concerted sales efforts and lower prices have enabled packers to speed up the movement of stocks into consumption, but Government surveys indicate that such crops as tomatoes, peas, corn and string beans will be reduced from 13 to 30 per cent this year. This presages a relative decline in the sale of packers cans, which however, will be partially offset by some increase in the pack of fruit juices, fish and baked beans. Sales of beer and general line cans may gain from 5 to 10 per cent, with the outlook as a whole indicating that total sales of all cans this year will be at least on a par with 1938, and may possibly be moderately higher.

With only about 2,540,000,000 glass containers used for food packing and canning as compared with about 11,400,000,000 cans (1937 figures) the average annual production of all glass containers is only about half that of tin cans. Moreover, demand for glass containers, minus the sustaining factor of food packs, is much more sensitive to year-to-year variations in general business activity. Demand for glass containers emanating from sources outside of the food industry comprises more than two-thirds of the total annual sales. About a third is used for merchandising drugs, cosmetics, medicinal and toilet preparations, while the balance is contributed by bottles for beer, liquors and other varieties of beverages.

Since the legalization of beer and other malt beverages, manufacturers of glass and tin containers have been waging a spectacular competitive battle. The merchandising of beer in cans was an entirely new idea, which the can makers put across by a well-timed and skillful campaign. As a result the glass industry lost almost half of its potential market. In 1937, the Department of Commerce reported a production of 629,000,000 beer cans and 673,000,000 beer bottles. To meet the competition of tin cans, glass makers devised new types of non-returnable bottles and one large bottle manufacturer began the production of tin cans.

What the glass industry has lost to tin containers, however, has been more than offset by the marked progress which has been made in the development of glass for industrial and tableware purposes. The feeling in the industry that the possibilities in these fields have been only barely explored appears to have considerable basis in fact and to that extent it may be said that the glass manufacturers are favored by a more dynamic growth factor than either of the other divisions of the container industry.

Owens-Illinois Glass Co., is rated the largest manufacturer of glass bottles and the company is prominently identified with most of the successful new applications of glass in industrial use. Products also embrace tin containers and novelties and a line of plastic closures. The company's operations, although subject to considerable fluctuation, have been consistently profitable and dividends have been paid without interruption since 1907. Hazel-Atlas is the second largest manufacturer of glass containers with sales about evenly divided between containers for food products and industrial uses. The company's line comprises some 1,500 items. Earnings have been sizable and have shown unusual stability. Thatcher Manufacturing is the largest domestic manufacturer of milk bottles and although the company is meeting increasing competition from paper and fibre containers, its established position is unlikely to be seriously jeopardized in the near future.

Paperboard is the largest single item in the domestic paper industry, accounting for about 40 per cent of total output, with 80 per cent of all paperboard going into the manufacture of boxes, containers, shipping containers and many miscellaneous uses. There is hardly a manufacturing industry which does not use paper shipping containers, to say nothing of the myriad of manufacturers whose products are marketed in some form of paper box or carton. Paper has all but supplanted wood in the manufacture of shipping cases and containers, having the advantage of lighter weight and lower cost. The rapid growth of the industry in recent years has attracted considerable new production, particularly in the South, and as a consequence, manufacturers have experienced difficulty in maintaining a profitable price structure at times when business slumps threatened to curtail volume. Demand, however, is growing steadily and once it has reached sufficient proportions to absorb productive capacity a greater measure of price stability can be expected.

Because consumer goods industries are the largest users of paper containers, volume sales although sensitive to variations in the trend of general business, hold at a fairly high level even under unfavorable conditions. Price factors have been chiefly responsible for the sharp fluctuations in the earnings of leading makers of paper containers.

Sutherland Paper is the single exception to the latter generalization. The company specializes in the manufacture of paraffined cartons and other specialty products most of which are under little or no price pressure. Container Corp. is the largest manufacturer of shipping cartons and under reasonably favorable conditions has been able to realize sizable profits.

Paramount in a New Phase

(*Continued from page* 384)

consolidated subsidiaries, the first quarter of 1939 resulted in a profit of 13 cents a share on the common stock after allowing for preferred dividends, as compared with a loss of 11 cents a share on the same basis a year earlier. The second quarter continued the improvement and although the summer months are not expected to provide any large gains Paramount will enter the fall season with chances all in favor of widening the increase over last year's final earnings figures. The trend is once more working on the side of the exhibiting division and the producing and distributing end has apparently gotten out of the habit of handicapping combined results. Helped by lower interest charges, a better control over costs, and steady but moderate growth of gross revenues, the company is in the midst of a new uptrend likely to be cut short only by a change in underlying business conditions.

Favorable conditions for the industry can be seen in the continued support being lent consumer purchasing power. From this trend Paramount has more to gain than any of its competitors—and conversely a great deal to lose from a reversal of any duration. The involved type of leverage discussed earlier makes the common stock an unusually interesting speculation at current levels around 10. Two years ago the stock ran to almost triple that height, and since then considerable definite progress in the companys' affairs can be discerned. No one is likely to buy the stock as a steady income producer, yet another dividend before the year ends is quite within the probabilities, and provided market and business trends give the issue any impetus it will have another opportunity to demonstrate its rallying power.

Stocks Selected for Profit in Next Market Upswing

(*Continued from page* 407)

will widen the rate of gain shown in the first half. The statistical position of the copper industry has undergone considerable improvement, accompanied by higher prices both for foreign and domestic copper deliveries. The month of June witnessed large-scale copper purchases by domestic fabricators and several sizable export orders were also placed with domestic producers. From all reports, however inventories both in the hands of fabricators and consumers, have been reduced virtually to the point of a practical minimum, a condition which would seem to presage a very sizable buying move with any further recovery in general business.

In addition to the outstanding capital stock, Phelps Dodge has a funded debt of $19,903,100 3½% debentures, convertible into the common stock at $50 a share. At the end of last year the company's financial position was good, current assets, including more than $30,000,000 cash and marketable securities, amounting to $53,337,453, while current liabilities were less than $9,450,000.

Thus far in the current year the company has paid two dividends of 25 cents each and the probabilities are that total dividends will aggregate at least $1 a share. Quoted around 40, the issue invites favorable speculative consideration for longer term price appreciation.

F. E. Myers & Bro. Co.

1939 Price Range High	Low	Recent Price	Dividend
51	45	47	$3

F. E. Myers & Bro. Co. is engaged in the manufacture of an extensive line of light farm products, including pumps of various sizes, power sprayers, water systems, tools, door hangers, etc. A small portion of the company's products enter into industrial use, and all of them are marketed throughout the world. The farm equipment industry is one which, in the past, has shown itself to be particularly sensitive, from the standpoint of sales volume and earnings, to the rise and fall in agricultural purchasing power. Although this tends to introduce a factor of instability into the earnings of farm equipment manufacturers, Myers & Bro. have shown profitable operations in each year since the company was incorporated in 1927. In 1932 the company reported net income of $197,116, or the equivalent of 54 cents per share. In each of the following years, however, profits steadily recovered and in 1937, net of $1,063,195 was equivalent to $5.32 a share, only barely short of the peak level reached in 1929 when earnings were equal to $5.58 a share. In the fiscal period ended October 31, 1938, the company reported net income of $822,308, equal to $4.11 a share. Although earnings were lower last year, reflecting the slump both in farm and industrial purchasing power, the showing much better than the average for the farm equipment industry as a whole. In the quarter ended January 31, last, profits were equivalent to 88 cents per share for the common stock, in comparison with $1.41 per share in the January quarter of 1938. From all indications, however, results in subsequent months should show substantial improvement. Farm income is currently running ahead of last year, but due to the normal lag before rising farm purchasing power becomes an effective factor in sales of farm equipment, evidence of improved prospects were not apparent in first quarter operations.

Capitalization of the company is modest, consisting solely of 200,000 shares of common stock. Financial position is comfortable, with current assets at the end of last October amounting to $3,175,000, while cash items alone of some $1,500,000 were substantially in excess of total liabilities amounting to about $273,000. Last year dividends totaling $3.50 per share were paid, while disbursements this year have been at the rate of 75 cents quarterly.

The company's shares have held within a narrow price range this year, but with prospects improving there appears to be an excellent possibility that commitments made at recent levels around 47 will prove a profitable venture over a reasonable period of time. In the meantime, the shares afford a substantial yield of better than 6%.

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